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TOBANK

Annual Report 2018

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T BANK

Management Team

Mr. Pema Tshering	Chief Executive Officer
Mr. Laxmi Prasad Giri	Chief, Banking Operations Department
Mr. Namgay Phuntsho	Chief, IT Department
Mr. Chencho Dorji	Head, ADM/HR Department
Mr. Chencho	Head, Finance & Accounts Department
Mr. Sonam Tobgay	Head, Credit Department

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Branch Managers

Mr. Tshering Dorjee	Thimphu Branch
Mr. Jigme Chogyal	Phuentsholing Branch
Mr. Bikash Subba	Gelephu Branch
Mr. Namgay Dorji	Wangdue Branch
Mr. Tshering Tashi	Paro Branch
Mr. Rinchen Tshewang	Mongar Branch
Mr. Nobin Sinchuri	Samdrup Jongkhar Branch
Mr. Tshetrim Dorjee	Samtse Branch
Mr. Saha Bahadur Biswa	Trashigang Branch
Ms. Radhika Dahal	In-Charge, Trongsa Extension Office

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Ownership:

The share holding pattern of the bank as of 31st December 2018:

1.	Ashi S. Dorji	-	20%
2.	Dasho Wangchuk Dorji	-	20%
3.	Dasho Topgyal Dorji	-	20%
4.	General Public	-	40%

Assets:

As highlighted above, the total assets of the bank increased by 27.02% from Nu. 7,083 million to Nu.8,996 million in 2018. The increase in asset size is primarily attributed by growth in loans and advances by 28.68% to Nu. 6,252 million as compared to previous year (Nu.4,858 million). The Other Assets increased by 91.17% from Nu.28 million to Nu. 53 million this year while Property, Plant and Equipment increased by 49.12% from Nu. 30 million to Nu. 44 million this year.

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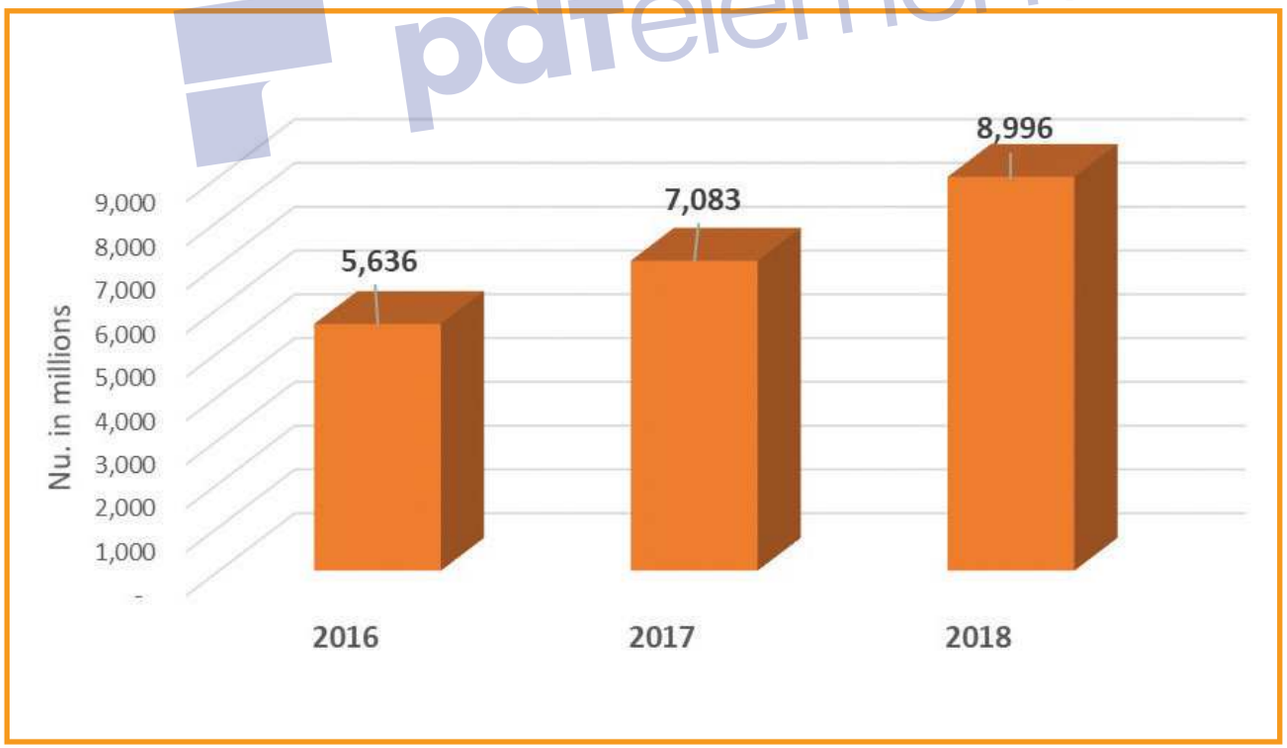

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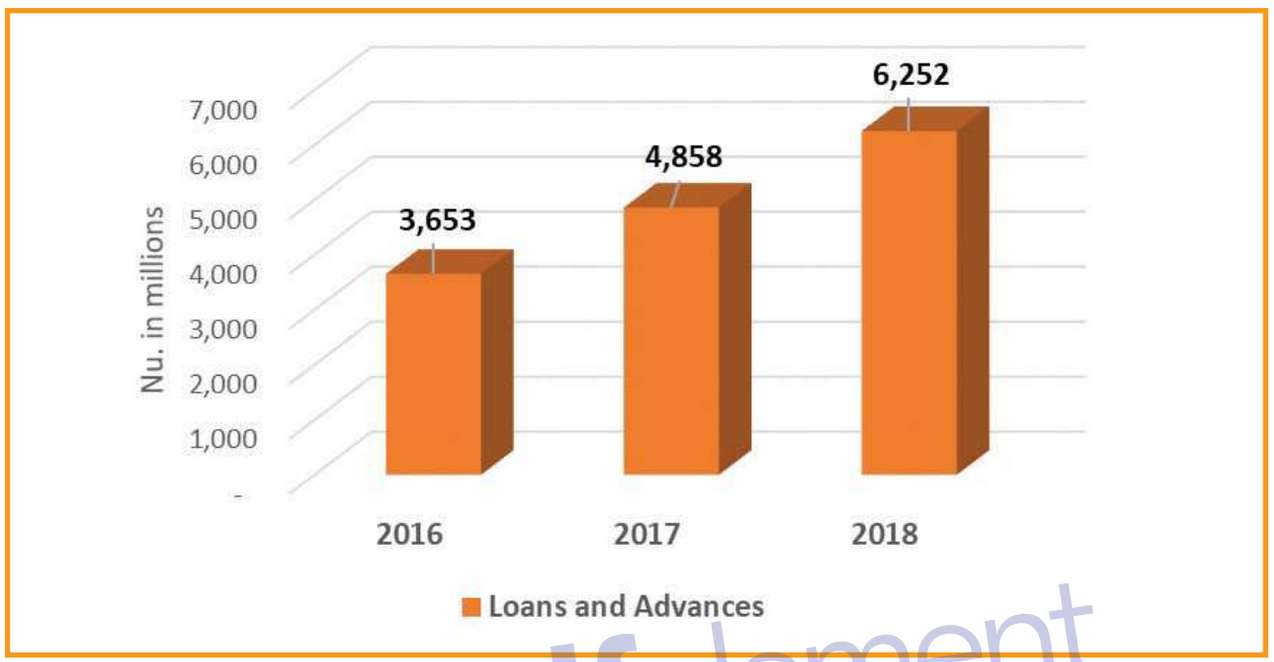
Loans & Advances:

During the year, the loans and advances increased from Nu. 4,858 million in 2017 to Nu. 6,252 million, a growth by 28.68%.



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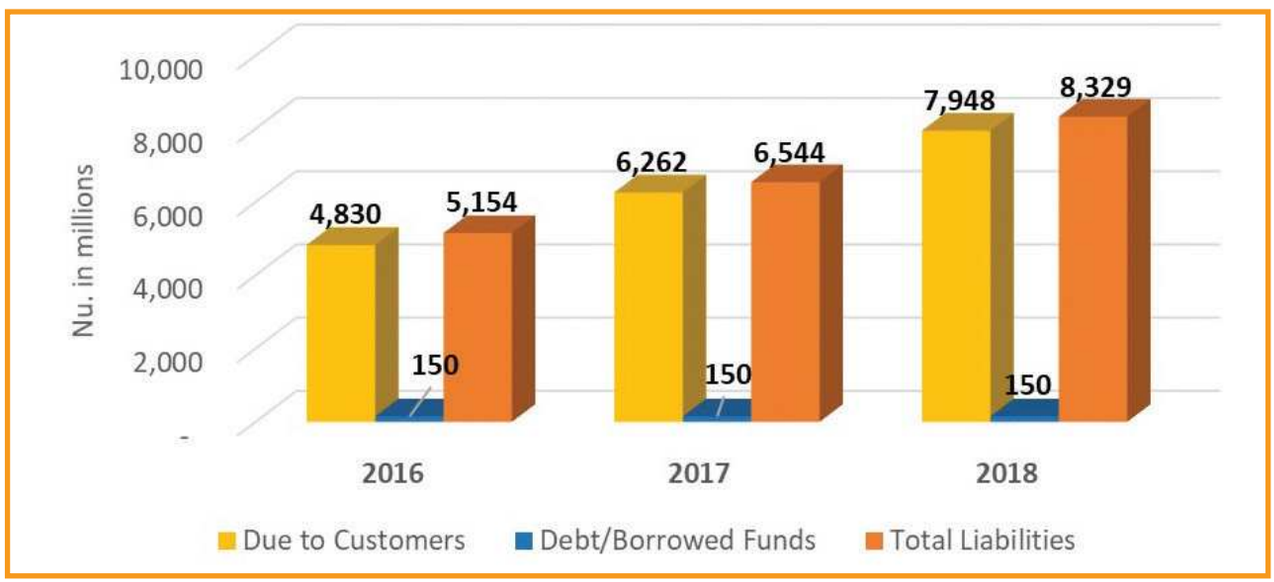
Liabilities:

The total liabilities of the bank increased from Nu. 6,544 million to Nu. 8,329 million as at 31st December 2018 recording a growth of 27.29%. The increase in liabilities is attributed to growth in deposit portfolio by 26.92% from Nu. 6,262 million to Nu. 7,948 million this year.

Similarly, the total equity also increased by 23.71% since profit after tax of Nu.140 million has been ploughed back to retained earnings to strengthen the bank's capital base.



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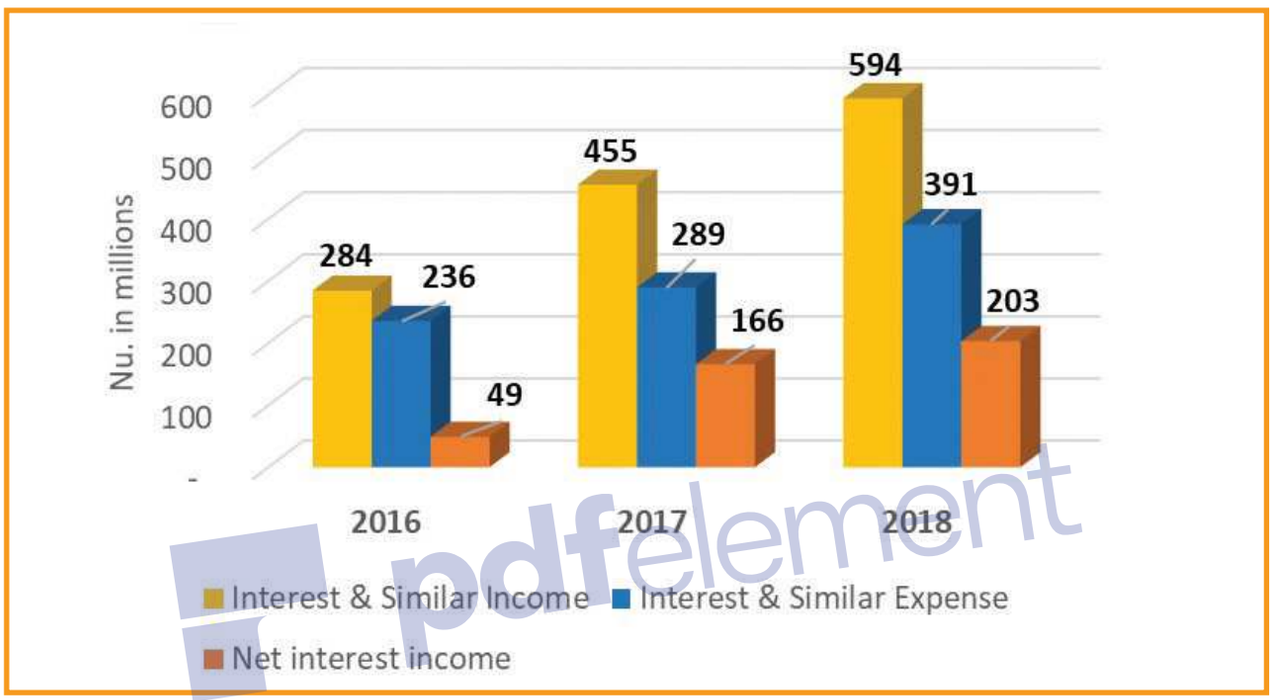
Interest Income and Expenses:

The total interest and similar income increased from Nu. 455 million in 2017 to Nu. 594 million in 2018 registering a growth of 30.54%.

The total interest and similar expenses also increased from Nu. 289 million in 2017 to Nu. 391 million in 2018, an increase by 35.18%.



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Fee and Commission Income & Expense:

The total fees and commission income increased from Nu. 39 million in 2017 to Nu. 58 million in 2018 registering a growth of 51.75% while the income from other sources during the year increased by 14.83% from Nu.76 million in 2017 to Nu.87 million in 2018. As such, the total income from fees and other sources increased by 27.24% from Nu 115 million in 2017 to Nu. 146 million in 2018.

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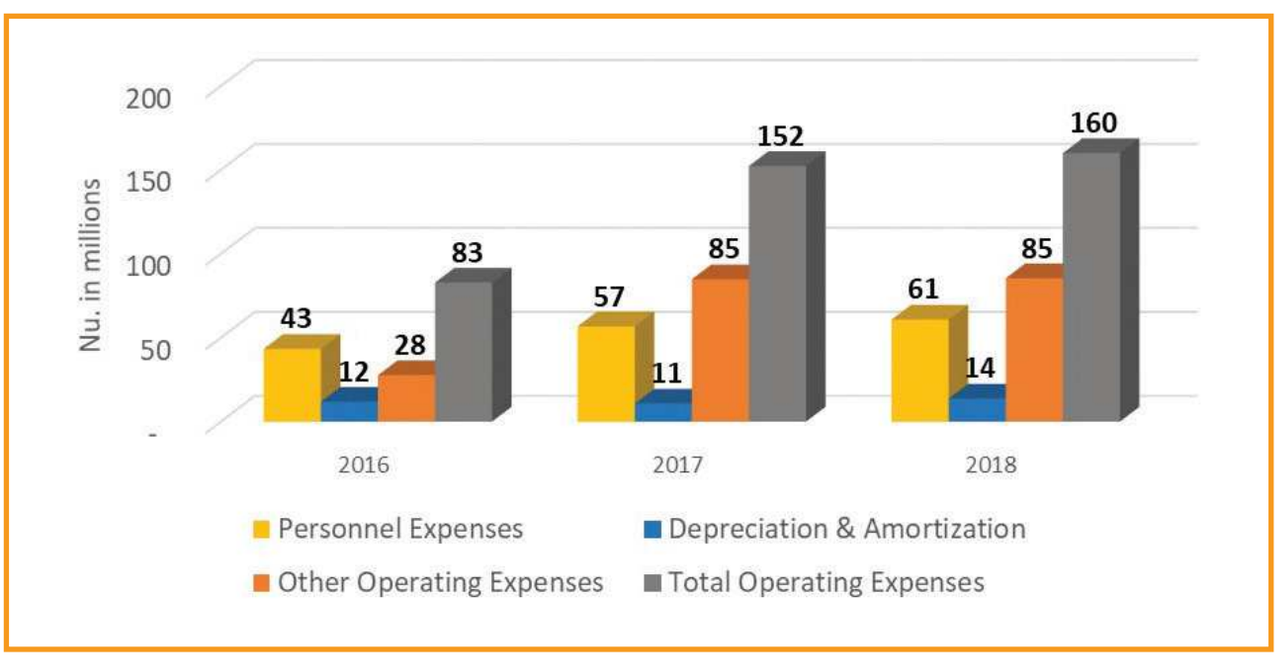
Personnel Expense/Operating Expense to Total Expense:

The total operating expense during the year was Nu. 160 million and out of which Nu. 61 million was personnel cost. The personnel cost increased by 7.17% from Nu.57 million in 2017 to Nu. 61 million due to increase in number of employees (on account of increased branch network and business expansion during the year).



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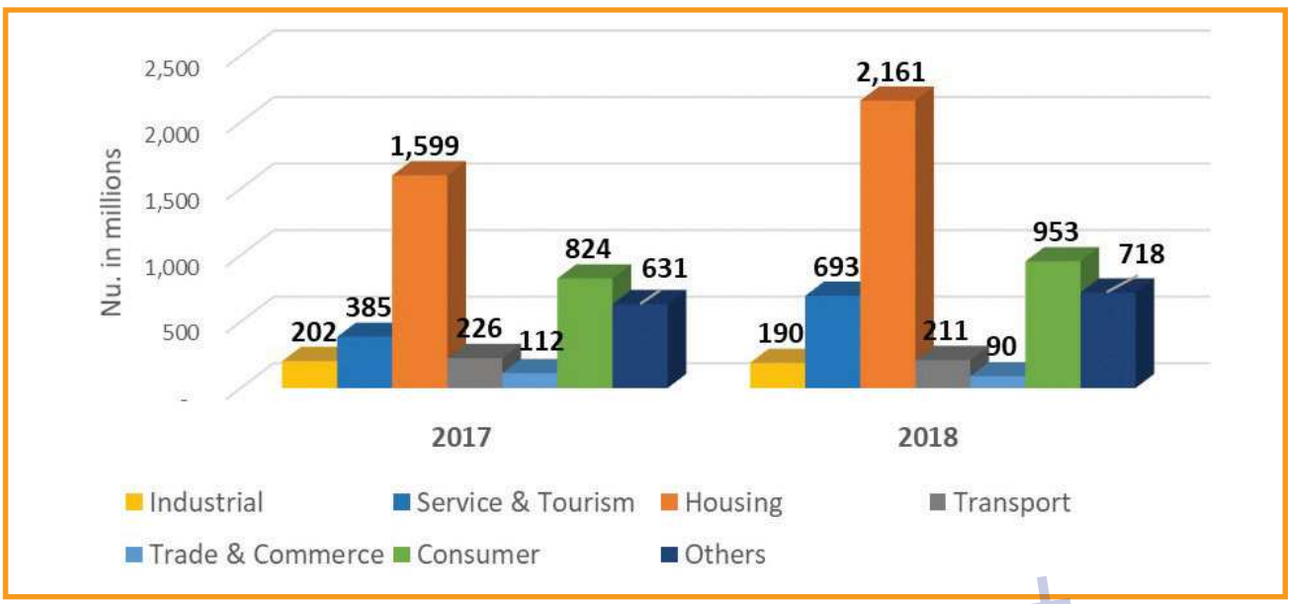
Loans and Advances by Sectors:

In terms of Sectoral loans, the housing loan constitutes highest sector with Nu. 2,161 million (34.57% of gross loans and advances) followed by consumer loan with Nu. 953 million (15.24%).



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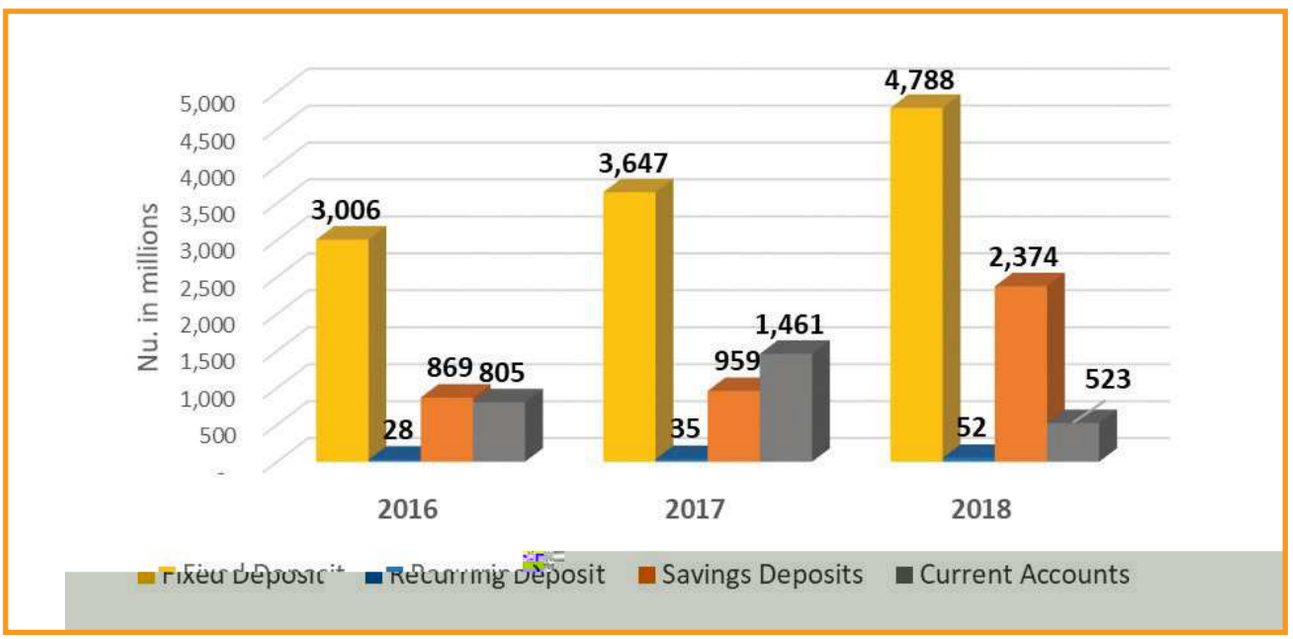
Deposits by Products:

For the year 2018, the fixed deposits increased by 31.28% from Nu. 3,647 million in 2017 to Nu. 4,788 million while the recurring deposits increased by 47.87% (from Nu.35 million in 2017 to Nu. 52 million in 2018) and saving deposits by 147.55% (from Nu.959 million in 2017 to Nu. 2,374 million in 2018). However, the current deposits decreased by 64.18% (from Nu.1,461 million in 2017 to Nu.523 million in 2018). The reason behind sudden increase in saving deposits and decrease in current deposits was due to reclassification of Money Market Account to Special Saving Account related to Special Study Loan Scheme.



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Market Price information:

An indication of the bank's performance is also guaged by the stock price of the bank since it is listed on the Stock Exchange. The bank's shares has been actively traded in the secondary market with the market price increasing from Nu. 20 per share 2017 to Nu. 40 per share against the face value of Nu. 10/- per share as of 31st December 2018. The book value of the bank's share as of 31st December 2018 stood at Nu. 15.69 per share.

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HUMAN RESOURCES MANAGEMENT

Recruitment and Separation:

During the year, the bank recruited 54 employees due to expansion for branch network, business volume and as replacement of those who resigned. A total of 15 employees resigned from the bank during 2018. As such, the average attrition rate of the bank was 9.04% against 16.67% last year.

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Sl. No	Name	Designation	Board Meeting Attended	Sitting Fees	Remarks
1	Dasho Wangchuk Dorji	Chairman	36th, 37th & 38th Board Meeting	Nu.42,000.00	Dasho Wangchuk resigned as the Chairman & Board Director effective from 1st October 2018
2	Ashi S. Dorji	Director	37th, 38th & 39th Board Meeting	Nu.42,000.00	
3	Mr. Lamkey Tshering	Indenpendent Director	36th, 37th, 38th & 39th Board Meeting	Nu.56,000.00	
4	Mr. Gyem Tshering	Indenpendent Director	36th, 37th, 38th & 39th Board Meeting	Nu.56,000.00	
5	Mr. Pema Tshering	Director/Member Secretary	36th, 37th, 38th & 39th Board Meeting	Nu.56,000.00	

The 8th AGM was held on 8th March 2018, thereby complying with the Companies Act of Bhutan 2016. Besides these, (5) Board Audit Committee Meetings, (1) Board Governance Meeting and (1) Board Risk Committee Meeting were convened during the year to discuss on various operation aspects of the bank.

In accordance with the Companies Act of the Kingdom of Bhutan 2016, all the documents have been duly maintained and the Bank has followed best practices of good corporate governance during the year 2018.

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Board of Directors:

The directors have been providing effective leadership and guidance to the management for the growth of the Bank. The following are the present Board of Directors:

1	Ashi S. Dorji	- Interim Chairperson
2	Mr. Lamkey Tshering	- Independent Director
3	Mr. Gyem Tshering	- Independent Director
4	Mr. Pema Tshering	- Director/Chief Executive Officer (Member Secretary)
5	Mr. Chencho Dorji	- Company Secretary
6	Mr. Laxmi Prasad Giri	- Chief, Banking Operations - Observer

Audit Committee:

In accordance with Section 1, Schedule I of Prudential Regulation 2017, the Bank has established the Audit Committee during its 9th Board Meeting.

COMPLIANCE

The bank has complied with the RMA Prudential Regulations 2017 and the Companies Act of the Kingdom of Bhutan 2016. All prudential requirements stipulated by the RMA has been complied in 2018. During the year, bank's Capital Adequacy Ratio (CAR) of minimum of 12.50% (including Capital Conservation Buffer of 2.50%) and Statutory Liquidity Ratio (SLR) of 20% of its total liabilities excluding capital fund was also complied with. As a part of the risk management system, the Bank will continue to improve its compliance requirements in line with the laws, by-laws and other related rules and regulations.

Therefore, during the reporting year, there was no violation on any of the key ratios of the Bank as per RMA Regulation.

CORPORATE SOCIAL RESPONSIBILITIES (CSR)

As part of the bank's CSR activities, the employees of the bank participated in the Blood donation coinciding with the 2nd Birth Anniversary of our beloved Gyalsey, the bank adopted the area along Wangchhu river from Lungtenzampa bridge to Changjiji Bazam to maintain the area's cleanliness and conducted a mass cleaning campaign on 2nd May 2018 coinciding with the Birth Anniversary of Third Druk Gyalpo. The bank also donated 5 dustbins (240 ltrs) to Samdrup Jongkhar Thromde on 6th April 2018 and was one of the sponsors for the "3rd Royal Highlanders Festival" held at Laya on 23rd & 24th October 2018.

ACKNOWLEDGEMENT

Although, the banking industry is becoming very competitive and challenging, we have full confidence in the management team led by the Chief Executive Officer, Mr.Pema Tshering. Under the new leadership of present Management, the bank's performance accelerated, and the business has expanded by double-fold. The facts and figures are indicative of the story. For the bank's achievement, I would also like to thank all

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Independent Auditors' Report

To the Shareholders of T Bank Limited

Opinion

We have audited the accompanying financial statements of T Bank Limited (hereinafter referred to as the Bank), which comprise the Statement of Financial Position as at 31st December 2018, the Statement of Comprehensive Income, Statement of Other Comprehensive Income for the year ended on that date, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of T Bank Limited as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Bhutanese Accounting Standards (BAS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements paragraph of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Responsibilities of Management and those charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Bhutanese Accounting Standards (BAS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain responsible assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing (ISA) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Further we exercised professional judgment and maintained professional skepticism through the audit and described our responsibilities in **Annexure-I** attached to this report as per the requirements of Paragraph 40(b) of the ISA 700.

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AUDITORS' REPORT

Emphasis of Matter

We draw attention on the following

Unreconciled balance in network clearing and settlement accounts as on 31st Dec, 2018 is net debit 3,909,560/- This represents customers using inter-bank online banking facility remain unsettled with other banks for long period.

Note no 32.1 to the notes to BAS Financial Statements, whereas it is disclosed that the Bank has adjusted Rs 10,139,317/- against retained earnings and resulted to increase profit in Statement of Comprehensive Income by this amount. Ultimate effect in retained earnings as on 31st December, 2018 has been nullified.

Other Matter

a) The comparative financial information for the year ended 31st December, 2017 and the transition date opening balance sheet as at 1st January, 2017, prepared in accordance with BAS and included in these BAS financial statements, are based on the previously issued statutory financial statements for the year ended 31st December, 2017 and 31st December, 2016 respectively which were audited by the predecessor auditor whose reports dated 9th March, 2018 and 30th March, 2017 respectively expressed unmodified opinion on those financial statements and have been adjusted for the differences in the accounting principles adopted by the Bank on transition to phase III of BAS, which have been audited by us. For the adoption of BFRS – 9, the Bank has re-stated the figures from transition date i.e. 1st January, 2017.

b) Confirmation of outstanding balances of loans and advances given, deposits taken and other receivable / payable were not available for our verification. However, the Bank contended that such confirmations are not feasible.

Our opinion is not qualified in respect of these matters.

Report on Other Legal and Regulatory Requirements

As required by section 266 of the Companies Act of Kingdom of Bhutan, 2016, we enclose in the **Annexure-II**, a statement on Minimum Audit Examination and Reporting Requirements matters specified therein to the extent applicable to the Bank.

As required by section 265 of the Act, we report that:

a) We have obtained all the information and explanation, which to the best of our knowledge and belief were necessary for the purpose of our audit.

b) In our opinion proper books of accounts as required by law have been kept by the Bank in so far as it appears from our examination of the books.

c) The Statement of Financial Position, Statement of Comprehensive Income, Statement of Change in Equity and the Statement of Cash flow dealt with by this report have been prepared in accordance with the accounting principles generally accepted and are in agreement with the books of account.

d) The Bank has complied with other legal and regulatory requirements.

For **Ray & Ray**
Chartered Accountants
Firm Registration No.301072E

(Jyoti.N.Yalagoud)
Partner
Membership No- 064897
Date: 5th March 2019
Place: Thimphu

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Annexure –I

Annexure to the Independent Auditor's Report paragraph of the Auditor's Responsibilities for the Audit of the Financial Statements of T Bank Limited for the year ended 31st December, 2018 and as per the requirement of the paragraph 40(b) of ISA 700.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism through the audit. We also:

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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As explained to us, the bank has entered into transactions for purchase of goods and sale of services with parties in which one or more Directors of the Bank are interested. Our examination has revealed that such purchase and sales transactions were made at prices which were reasonable having regard to the prevailing market prices for such goods and services or at prices at which the transactions for similar goods and services have been made with other parties. Details of such transactions and amounts thereof are adequately disclosed in Note No. 34 of Notes of Accounts.

In respect of transactions referred to in clause above, our examination has revealed that such transactions are not prejudicial to the interest of the other shareholders and the Bank.

As per information and explanations given to us and also examined by us, there was no case of any item in inventory having become damaged or unserviceable during the year.

As per information and explanation provided to us and according to our examination of records, the bank is regular in depositing rates and taxes, duties, provident funds and other statutory dues with the appropriate authorities. Provision for corporate tax for the year is adequate and necessary adjustments have been made to compute the amount of tax required under the Rules of the Income Tax of the Kingdom of Bhutan 2001 except TDS liability amounting Nu 1,223,837.28 which has been shown in accounts as on 31st December, 2018.

As per information and explanations provided to us and according to our examination of records, there are no disputed amounts payable in respect of rates, taxes, duties, royalties, provident funds and other statutory deductions on the last day of the financial year.

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During the course of our examination of the books of account carried out in accordance with the generally accepted auditing practices, we have not come across any personal expenses other than contractual and / or as per customer business practices, which have been charged to the Statement of Comprehensive Income.

In our opinion, and on the basis of information and explanations given to us, the management of liquid resources, particularly cash / bank etc. is reasonably adequate and excessive amounts are not lying idle in non-interest bearing accounts.

According to the information and explanations given to us, and on the basis of available records and information, we are of the opinion that the financial activities carried out by the bank during the year are lawful and intra-vires to the Articles of Incorporation of the Bank.

Capital investment decisions are made with prior approval of the Board and investments in projects are made only after ascertaining the technical and economic feasibility of such new projects.

In our opinion, the bank has established an effective control system.

The details of remuneration paid to the Managing Director and sitting fees paid to other Directors are disclosed in Note No. 34 of notes to Accounts. While checking the minutes of the meetings, we have not come across any cases of disclosure of interest where payments have been made in cash or in kind to any of the Directors and their relatives (including spouse(s) and child / children) by bank directly or indirectly.

RAY & RAY CHARTERED ACCOUNTANTS Vidyut Bhavan Kolkata-91

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As represented to us, the directives of the Board have been complied with.

As represented by the management, the officials of the bank have not transmitted any price sensitive information which is not made publicly, unauthorized to their relatives / friends / associates or close persons which would directly or indirectly benefit themselves.

The bank has generally maintained adequate documents and records where it has granted loans and advances for which agreements have been drawn up and timely entries have been made therein.

As per our examination of records and information and explanation provided to us, the bank has not dealt or traded in shares, securities and other investments during the year.

The bank had adequate records for fund collected from depositors and for interest payments.

The Bank has made investments, details of which are adequately disclosed in Note No 17. As per our examination of records and information and explanation provided to us there is no diminution in value of such investments.

The bank has generally complied with the requirements for Financial Services Act 2011 and other applicable regulations.

The bank has complied with the requirements relating to provisioning for the non-performing assets including loans and advances as per Prudential Regulations 2017 of Royal Monetary Authority of Bhutan and Bhutan Financial Reporting Standards (BFRS) 9. To comply with BFRS-9, provision on loans has been reduced to Nu 270,127,765/- from RMA provision of Nu 276,974,670/- in the year 2018 and its impact on retained earnings as on 31st December, 2018 is Nu 6,846,905/-.

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Accrued interest on non-performing loans has been recognized as interest income as per accounting policy of the bank revised upon adoption of BAS and has not been deferred. However, accrued interest has been taken into account while arriving at provision for impairment loss.

The assets hypothecated against loans and advances have generally been physically verified, properly valued, mortgage deed executed and ensured that the assets are free of any prior lien or charges.

The bank has a system of monitoring of projects for which loans have been provided to ensure that loan amounts are used for the specified purposes and project activities are progressing satisfactorily.

The bank has disposed the assets taken over for repayment of defaults through auction conducted by a separate committee.

There is no re-phasing / rescheduling of loans during the year except in few cases where loans have been renewed and enhanced.

There is a system to ensure that additional loans are not granted to those who have defaulted payments of previous advances.

RAY & RAY CHARTERED ACCOUNTANTS Nebel Bhavan Kolkata-91

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7	Current Ratio (CA:CL)	1:1.61	1:1.13	Increase in current assets lower than increase in current liabilities.
8	Return on Investment (Return on opening investment)	25.98%	23.43%	Increase in net profit.
9	Net Profit Ratio (Pre Tax)	25.51%	22.48%	Increase in net profit proportionately higher than increase in total income.
10	Earnings Per Share (EPS)	3.29%	2.66%	Increase in net profit
11	NPL / Total Loans & Advances	5.48%	6.58%	Increase in loans and advances proportionately higher than increase in NPL.
12	Return on Assets (ROA)	2.10%	1.81%	Increase in net profit.
13	Book Value of Shares Nu	15.69	12.68	Increase in Reserve & Surplus.

Previous year ratio figures have been recalculated due to reclassification and re measurement in financial statements.

3. Compliance with the Companies Act of Bhutan, 2016:

The bank has complied with the provisions of the Companies Act of Bhutan, 2016, concerning conducting of meetings, filing requirements and maintenance of records and issue of shares.

4. Adherence to Laws, Rules and Regulations:

The audit of the bank has been governed by the Companies Act of Bhutan, 2016, RMA Prudential Regulation 2017 (effective from 1st January, 2018), Financial Services Act, 2011 and Corporate Governance Rules and Regulations, 2018 (effective from 1st July, 2018). The scope of audit is limited to examination and review of the financial statement as produced to us by the management.

The bank has generally complied with the applicable laws, rules and regulations, systems, procedures and practices.

All corporate governance policies have not yet been fully documented as per the provisions of the Corporate Governance Rules and Regulations, 2018 in pursuant to Section 202 of the Financial Services Act of Bhutan 2011.

For **Ray & Ray**

Chartered Accountants

Firm Registration No.301072E

(Jyoti.N.Yalagoud)

Partner

Membership No- 064897

Date: 5th March 2019

Place: Thimphu

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Statement of Comprehensive Income
For the year ended 31st December 2018

	Note	2018 Nu	2017 Nu
Interest & Similar Income	4	594,224,473	455,217,447
Interest & Similar Expense	5	(391,303,613)	(289,472,338)
Net interest income		**202,920,860**	**165,745,109**
Fee and commission income	6	58,478,005	38,536,993
Fee and commission expenses		-	-
Net fee and commission income		**58,478,005**	**38,536,993**
Other Operating Income	7	87,351,634	76,073,397
Total operating income		**348,750,499**	**280,355,499**
Personnel Expenses	8	(60,790,776)	(56,724,230)
Depreciation on Property Plant & Equipment	22	(8,301,980)	(7,637,665)
Amortization of Intangible Assets	23	(5,435,411)	(3,065,593)
Other Operating Expenses	9	(63,494,762)	(49,509,751)
Impairment (charges)/reversal for loans and other losses	10	(21,939,005)	(35,319,158)
Total Operating Expenses		**(159,961,934)**	**(152,256,397)**
Profit Before Tax from Continuing Operations		**188,788,565**	**128,099,101**
Income Tax Expense:			
Current tax	11	(46,187,084)	(26,644,957)
Assessed tax paid pertaining to earlier years		(2,956,517)	(125,469)
Deferred tax	29	347,540	11,606,933
Profit For the Year		**139,992,504**	**112,935,608**

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For RAY & RAY
CHARTERED ACCOUNTANTS
FRN: 301072E

Partner: Jyoti N. Yalagoud
Membership Number: 064897

Place: Thimphu
Date: 5th March 2019

Interim Chairman

Chief Executive Officer

Director

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Statement of Financial Position
For the year ended 31st December 2018

	Note	2018 Nu	2017 Nu	1st January, 2017 Nu
Assets				
Cash & cash Equivalents	13	245,202,323	490,773,316	402,783,391
Cash & Balances with Central Bank	14	1,070,772,154	1,032,492,997	803,589,047
Placement with other Banks	15	1,244,031,590	564,256,857	673,862,543
Loans & Advances to Customers	16	6,251,631,180	4,858,389,370	3,653,038,441
Equity Instruments	17	7,750,000	7,750,000	7,750,000
Debt Instruments	18	41,631,934	41,541,935	41,541,841
Defined Benefit Assets	19	865,627	4,481,067	2,791,050
Other Financial Assets	20	2,945,611	4,287,116	1,621,762
Other Assets	21	53,159,456	27,807,788	28,738,378
Property, Plant & Equipment	22	44,128,478	29,592,009	19,288,012
Intangible Assets	23	33,897,414	21,171,087	1,113,294
Total Assets		**8,996,015,767**	**7,082,543,542**	**5,636,117,759**
Liabilities				
Due to Customers	24	6,064,279,010	4,571,446,692	3,381,596,494
Due to Banks	25	1,883,554,716	1,690,566,356	1,448,792,610
Debt issued and Other Borrowed Funds	26	150,000,000	150,000,000	150,000,000
Current Tax Liabilities	27	49,143,601	26,644,957	11,117,146
Differed Tax Liabilities	29	5,689,282	6,922,581	18,618,498
Other Liabilities	30	176,652,111	98,052,324	143,954,574
Total Liabilities		**8,329,318,720**	**6,543,632,910**	**5,154,079,322**
Equity				
Share Capital	31	424,997,860	300,000,000	300,000,000
Reserves				
Retained Earnings	32	229,343,717	235,903,169	179,561,387
Foreign Exchange Fluctuation Reserve		12,355,470	3,007,463	2,477,050
Total Equity		**666,697,047**	**538,910,632**	**482,038,437**
Total Liabilities and Equity		**8,996,015,767**	**7,082,543,542**	**5,636,117,759**

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For RAY & RAY
CHARTERED ACCOUNTANTS
FRN: 301072E

Partner: Jyoti N. Yalagoud
Membership Number: 064897

Place: Thimphu
Date: 5th March 2019

Interim Chairman

Chief Executive Officer

Director

Statement of Changes in Equity for the year ended 31st December 2018

	Note	Share Capital	Retained Earnings	Exchange Fluctuation Reserve	Total Shareholders' Funds
		Nu	Nu	Nu	Nu
Balance as at 1st January, 2017		**300,000,000**	**179,561,387**	**2,477,050**	**482,038,437**
Net profit for the year			112,935,608		112,935,608
Other Comprehensive Income for the year, net of tax			207,628		207,628
BFRS Adjustment *			(56,271,041)		(56,271,041)
Transfers during the year			(530,413)	530,413	-
Balance as at 31st December 2017		**300,000,000**	**235,903,169**	**3,007,463**	**538,910,632**
Adjustments (Bonus Shares issue)		124,997,860	(124,997,860)		-
Net profit for the year			139,992,504		139,992,504
Other Comprehensive Income for the year, net of tax			(2,066,772)		(2,066,772)
BFRS Adjustment *			(10,139,317)		(10,139,317)
Transfers during the year			(9,348,007)	9,348,007	-
Balance as at 31st December 2018		**424,997,860**	**229,343,716**	**12,355,471**	**666,697,047**

* The Company has adopted BFRS – 9 and prepared the BAS complied financial statements for the year 2018 with the transition date 1st January, 2017. In these financial statements, company has made a provision for impairment loss on loans as per BFRS -9 which is less than the RMA provision amount. The company has opted to adjust the differential amount against 'Retained Earnings' under the heading "BFRS adjustment" and in the year 2018 this adjusted amount is Nu 10,139,317/-.

For RAY & RAY
CHARTERED ACCOUNTANTS
FRN: 301072E

Partner: Jyoti N. Yalagoud
Membership Number: 064897

Interim Chairman

Chief Executive Officer

Director

	2018 Nu	2017 Nu
Cash flows from operating activities		
Profit before Taxation	188,788,565	128,099,101
Adjustments for:		
Depreciation and amortization	13,737,391	10,703,258
Loss on sale of Assets	24,938	-
Cash flows from operating activities before changes in operating assets and liabilities	**202,550,894**	**138,802,359**
(Increase) /decrease in assets		
Net change in mandatory cash balances with central banks	(38,279,157)	(228,903,950)
Net change in due from other banks	(679,774,733)	109,605,686
Net change in loans and advances to customers	(1,403,381,127)	(1,261,621,970)
Net change in other assets	(22,551,495)	(3,217,247)
Increase /(decrease) in liabilities		
Net change in due to other banks	192,988,360	241,773,746
Net change in customer accounts	1,492,832,319	1,189,850,197
Net change in other liabilities and provisions	77,714,027	(45,902,251)
Net cash from operating activities before income tax	**(177,900,912)**	**140,386,572**
Tax expenses	(26,644,957)	

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1. CORPORATE INFORMATION

T Bank Limited is a limited liability bank incorporated and domiciled in Bhutan. The address of its registered office is Post Box No. 631, TCC Complex Building, Samten Lam, Chubachu, Thimphu, Bhutan. The bank provides commercial banking services to different parts of the country. The principal activities of the bank comprise; Corporate and Investment banking, Retail banking and treasury operations within and outside Kingdom of Bhutan.

2. BASIS OF PREPARATION

The financial statements have been prepared on historical cost basis and are presented in Bhutanese Ngultrums (Nu).

The following fundamental assumptions are followed in preparation of these financial statements:

a) Accrual
b) Going Concern
c) Consistency

Statement of Compliance

The financial statements of the bank have been prepared in accordance with the requirements under Bhutanese Accounting Standards (BAS) and Bhutanese Financial Reporting Standards (BFRS).

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Presentation of Financial Statements

The bank presents its financial statements in accordance with BAS 1 - Presentation of financial statements in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) or more than 12 months after the reporting date (non-current) are also carried out.

Change Impact

Financial Impact mainly emanated out of the adoption of BAS/BFRS is due to:

a) Adoption of Expected Credit Loss approach for financial assets as per BFRS - 9;
b) Adoption of Effective Interest Rate (EIR) for financial liabilities as per BFRS - 9;
c) Valuation of Gratuity and Leave Encashment on the basis of Projected Unit Credit Method as stated in BAS-19;
d) Recognition of Deferred Tax Assets/Liabilities owing to temporary timing differences as per BAS-12.

2.1 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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Placement with Other Banks

Amounts due from other banks are recorded under Placement with Other Banks and it includes mostly the fixed deposits maintained with counterparty banks. Amounts due from other banks are recorded at historical cost. However, in line with BFRS 9, allowance for Expected Credit Loss is calculated.

Lease

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases that do not transfer to the Bank substantially all the risks and rewards incidental to the ownership of the leased items are operating leases. Operating lease payments are recognized as expenses in the Income Statement on a straight line basis over the lease term.

Contingent Rental Payable is recognized as an expense in the period in which they are incurred.

Recognition of interest income - The effective interest rate method

Under both BFRS 9 and BAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under BFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under BAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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The EIR (and therefore, the amortized cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortized through interest and similar income in the income statement.

Interest and similar income

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset.

Fee & Commission Income

The Bank earns fees and commission income from a diverse range of services it provides to customers. Fees earned for the provision of services over a period of time are accrued over that period. These fees

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Due to Other Banks
Amounts due to other banks are recorded when money has been transferred to the Bank by counter party banks.

Customer Accounts
Customer Accounts are non-derivative liabilities to individual, state or corporte customers and interest accrued on amounts due to customers has been calculated by using Effective Interest Rate.

Income Taxes
Income Taxes has been provided for in the financial statements in accordance with legislation enacted or substantively enacted by end of the reporting period.

The Income Tax charge comprising current tax is recognized in the Statement of Comprehensive Income for the year.

Current Tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for Income Tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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Deferred Tax
The Bank calculates deferred taxation based on temporary timing difference that is the difference between the carrying amount of assets/liabilities and their tax base.

Staff costs and related contributions
The Bank measures the present value of the Gratuity obligation, which is a defined benefit plan with the advice of an independent professional actuary using the projected unit credit method.

Provisions, Contingent Assets & Contingent Liabilities
The Bank recognizes provisions only when it has a present obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made. Contingent Liability is disclosed unless the possibility of an outflow of resources embodying economic is remote. Contingent Assets are not recognized in the financial statements.

Operating Segments
An Operating Segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Chief Operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Operating segments have been identified based on the information provided to the Chief Operating Decision maker and are reported separately.

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With the introduction of BFRS 9 - Financial Instruments, the bank revised its accounting policies and disclosures as mentioned below:

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.4.1 New and amended standards and interpretations

In these financial statements, the Bank has applied BFRS 9 and BFRS 7, effective for annual periods beginning on or after 1 January 2018, for the first time. Although, the Bank has adopted other standards earlier, the Bank revised the accounting policies and disclosures in line with adoption of BFRS 9. The Bank has restated comparative information for 2016 and 2017 for financial instruments in the scope of BFRS 9.

2.4.2 Changes to classification and measurement

To determine their classification and measurement category, BFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The BAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortized cost) have been replaced by:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition
- Equity instruments at FVOCI, with no recycling of gains or losses or profit or loss on de-recognition
- Financial assets FVPL

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The accounting for financial liabilities remains largely the same as it was under BAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

2.4.3 Changes to the impairment calculation

The adoption of BFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing BAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. BFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

2.4.4 BFRS 7

To reflect the differences between BFRS 9 and BAS 39, BFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with BFRS 9, for the year beginning 1st January 2018.

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2.4.5 Financial instruments - initial recognition

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial~assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below:

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognizes the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

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2.4.6 Measurement categories of financial assets and liabilities

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost
- FVOCI
- FVPL

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL.

2.4.7 Due from banks, Loans and advances to customers, Financial investments at amortized cost

From 1 January 2018, the Bank only measures Due from banks, Loans and advances to customers and other financial investments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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The details of these conditions are outlined below:

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than *de-minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2.4.8 Debt instruments at FVPL (Policy applicable from 1 January 2018)

The Bank applies the new category under BFRS 9 of debt instruments measured at FVPL when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test.

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These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under BAS 39.

2.4.9 Equity instruments at FVOCI (Policy applicable from 1 January 2018)

Upon initial recognition, the Bank elects to classify its equity investments as equity instruments at FVOCI when they meet the definition of Equity under BAS 32 Financial Instruments: Presentation and are not held for trading. However, due to un-availability of data, the equity instruments are recognized at cost. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

2.4.10 Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under BFRS 9. Management only designates an instrument at FVPL upon initial recognition when the designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis.

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Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss.

2.4.11 Financial guarantees, letters of credit and undrawn loan commitments

Financial guarantees are initially recognized in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and – under BAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under BFRS 9 – an ECL provision.

The premium received is recognized in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn commitments and letters of credits are in the scope of the ECL requirements.

2.4.12 Reclassification of financial assets and liabilities

From 1st January 2018, the Bank reclassified its financial assets subsequent to their initial recognition. Financial liabilities are never reclassified.

2.5 De-recognition of financial assets and liabilities

De-recognition due to substantial modification of terms and conditions

The Bank de-recognizes a financial asset, such as a loan to a customer, when the terms and conditions have been re-negotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a de-recognition gain or loss, to the extent that an impairment loss has not already been

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The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

b) Financial liabilities

A financial liability is de-recognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

2.6 Impairment of financial assets (Policy applicable from 1 January 2018)

Overview of the Expected Credit Loss (ECL) principles

The adoption of BFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing BAS 39's incurred loss approach with a forward-looking ECL approach. From 1st January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under BFRS 9 and as such measured at cost.

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The 12 month ECL (12mECL) is the portion of Life Time ECL (LTECLs) that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a individual and collective basis is are as follows:

a) The top 30 borrowers (comprising 20% of the total loan portfolio) are assessed individually for Objective Evidence of Impairment.

b) The Loans and Advances that have been assessed individually and found not to be impaired are assessed together with all other loans under Collective Impairment.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognized, the Bank recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired, the bank records an allowance for the LTECLs.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses. The bank does not have such assets currently.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) de-recognition of the financial asset.

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The calculation of ECLs

The Bank calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously recognized and is still in the portfolio.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw-downs on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

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When estimating the ECLs, the Bank considers three scenarios base case, worst case, and best case. Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

The mechanics of the ECL method are summarized below:

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognizes the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit-adjusted EIR.

Financial Guarantee contracts: For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. However, the Bank does not provide credit card facilities at the moment. For loan commitments and letters of credit, the ECL is recognized within Provisions.

Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

a) GDP growth
b) Unemployment rates
c) Interest Rate
d) Inflation
e) Exchange Rate

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The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Therefore, bank also considers the following qualitative factors:

a) Government Policies
b) Industry Business cycle
c) Regulatory impact

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under BFRS 9 is the same is it was under BAS 39.

Write-offs

The Bank's accounting policy under BFRS 9 remains the same as it was under BAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

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3 Principal adjustments made:

3.1 Reconciliation of Statement of Comprehensive Income for the year ended 31st Dec 2018

	(Nu)		
	Local GAAP Reclassified	Re-measurement	BFRS
Interest & Similar Income	592,231,452	1,993,021	594,224,473
Interest & Similar Expense	(395,934,493)	4,630,880	(391,303,613)
Net interest income	**196,296,959**	**6,623,901**	**202,920,860**
Fee and commission income	58,478,005	-	58,478,005
Fee and commission expenses	-	-	-
Net fee and commission income	**58,478,005**	**-**	**58,478,005**
Other Operating Income	87,351,634	-	87,351,634
Total operating income	**342,126,598**	**6,623,901**	**348,750,499**
Personnel Expenses	(58,134,847)	(2,655,929)	(60,790,776)
Depreciation on Property Plant & Equipment	(8,301,980)	-	(8,301,980)
Amortization of Intangible Assets	(5,435,411)	-	(5,435,411)
Other Operating Expenses	(63,494,762)	-	(63,494,762)
Impairment (charges)/reversal for loans and other losses	(26,951,884)	5,012,879	(21,939,005)
Total Operating Expenses	(162,318,884)	2,356,950	(159,961,934)
Profit Before Tax from Continuing Operations	**179,807,715**	**8,980,850**	**188,788,565**
Income Tax Expense	(49,143,601)	347,540	(48,796,061)
Profit For the Year	**130,664,114**	**9,328,390**	**139,992,504**
Other Comprehensive Income			
Profit For the Year	130,664,114	9,328,390	139,992,504
Remeasurment Gain/(Loss) on Defined Benefit Plan		(2,952,532)	(2,952,532)
Total Comprehensive Income Before tax	**130,664,114**	**6,375,858**	**137,039,972**
Tax on income /(expense) relating to components of other comprehensive income	-	885,760	885,760
Total comprehensive income for the year, net of tax	**130,664,114**	**7,261,618**	**137,925,732**

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RAY & RAY CHARTERED ACCOUNTANTS

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3.2 Reconciliation of Statement of Comprehensive Income for the year ended 31st Dec 2017

	(Nu)		
	Local GAAP Reclassified	**Re-measurement**	**BFRS**
Interest & Similar Income	453,888,778	1,328,669	455,217,447
Interest & Similar Expense	(297,309,410)	7,837,072	(289,472,338)
Net interest income	**156,579,368**	**9,165,741**	**165,745,109**
Fee and commission income	38,536,993	-	38,536,993
Fee and commission expenses	-	-	-
Net fee and commission income	**38,536,993**	**-**	**38,536,993**
Other Operating Income	76,073,397	-	76,073,397
Total operating income	**271,189,758**	**9,165,741**	**280,355,499**
Personnel Expenses	(54,470,990)	(2,253,240)	(56,724,230)
Depreciation on Property Plant & Equipment	(7,637,665)	-	(7,637,665)
Amortization of Intangible Assets	(3,065,593)	-	(3,065,593)
Other Operating Expenses	(49,509,751)	-	(49,509,751)
Impairment (charges)/reversal for loans and other losses	(45,572,666)	10,253,508	(35,319,158)
Total Operating Expenses	(160,256,665)	8,000,268	(152,256,397)
Profit Before Tax from Continuing Operations	**110,933,092**	**17,166,009**	**128,099,101**
Income Tax Expense	(26,770,426)	11,606,933	(15,163,493)
Profit For the Year	**84,162,666**	**28,772,942**	**112,935,608**
Other Comprehensive Income			
Profit For the Year	84,162,666	28,772,942	112,935,608
Remeasurment Gain/(Loss) on Defined Benefit Plan	-	296,612	296,612
Total Comprehensive Income Before tax	**84,162,666**	**29,069,554**	**113,232,220**
Tax on income /(expense) relating to components of other comprehensive income	-	(88,984)	(88,984)
Total comprehensive income for the year, net of tax	**84,162,666**	**28,980,570**	**113,143,236**

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RAY & RAY CHARTERED ACCOUNTANTS Nirbal Bhavan Kolkata-91

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3.3 Reconciliation of Balance Sheet as at 31st December 2018

	Local GAAP Reclassified	(Nu) Re-measurement	BFRS
Assets			
Cash & cash Equivalents	245,305,296	(102,973)	245,202,323
Cash & Balances with Central Bank	1,070,772,154	-	1,070,772,154
Placement with other Banks	1,245,318,993	(1,287,403)	1,244,031,590
Loans & Advances to Customers	6,365,883,367	(114,252,187)	6,251,631,180
Equity insturments – at cost	7,750,000	-	7,750,000
Debt Instruments at Amortized Cost	41,632,466	(532)	41,631,934
Other Financial Assets	2,945,611	-	2,945,611
Other Assets	40,894,533	12,264,923	53,159,456
Defined Benefit Asset	-	865,627	865,627
Property, Plant & Equipment	44,128,478	-	44,128,478
Intangible Assets	33,897,414	-	33,897,414
Total Assets	**9,098,528,312**	**(102,512,545)**	**8,996,015,767**
Liabilities			
Due to Customers	6,077,364,776	(13,085,766)	6,064,279,010
Due to Banks and Financial Institutions	1,883,554,716	-	1,883,554,716
Debt issued and Other Borrowed Funds	150,000,000	-	150,000,000
Current Tax Liabilities	49,143,601	-	49,143,601
Differed Tax Liability	-	5,689,282	5,689,282
Other Liabilities	285,043,162	(108,391,051)	176,652,111
Total Liabilities	**8,445,106,255**	**(115,787,535)**	**8,329,318,720**
Equity			
Share Capital	424,997,860	-	424,997,860
Reserves			
Retained Earnings	216,068,726	13,274,991	229,343,717
Foreign Exchange Fluctuation Reserve	12,355,470	-	12,355,470
Total Equity	**653,422,056**	**13,274,991**	**666,697,047**
Total Liabilities and Equity	**9,098,528,312**	**(102,512,545)**	**8,996,015,767**

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RAY & RAY CHARTERED ACCOUNTANTS

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3.4 Reconciliation of Balance Sheet as at 31st December 2017

	(Nu)		
	Local GAAP Reclassified	Re-measurement	BFRS
Assets			
Cash & cash Equivalents	490,918,718	(145,402)	490,773,316
Cash & Balances with Central Bank	1,032,492,997	-	1,032,492,997
Placement with other Banks	564,364,022	(107,165)	564,256,857
Loans & Advances to Customers	4,953,689,446	(95,300,076)	4,858,389,370
Equity insturments – at cost	7,750,000	-	7,750,000
Debt Instruments at Amortized Cost	41,542,466	(531)	41,541,935
Other Financial Assets	4,287,116	-	4,287,116
Other Assets	17,287,103	10,520,685	27,807,788
Defined Benefit Asset	-	4,481,067	4,481,067
Property, Plant & Equipment	29,592,009	-	29,592,009
Intangible Assets	21,171,087	-	21,171,087
Total Assets	**7,163,094,964**	**(80,551,422)**	**7,082,543,542**
Liabilities			
Due to Customers	4,579,901,579	(8,454,887)	4,571,446,692
Due to Banks	1,690,566,356	-	1,690,566,356
Debt issued and Other Borrowed Funds	150,000,000	-	150,000,000
Current Tax Liabilities	26,644,957	-	26,644,957
Differed Tax Liability		6,922,581	6,922,581
Other Liabilities	193,224,130	(95,171,806)	98,052,324
Total Liabilities	**6,640,337,022**	**(96,704,112)**	**6,543,632,910**
Equity			
Share Capital	300,000,000	-	300,000,000
Reserves			
Retained Earnings	219,750,479	16,152,690	235,903,169
Foreign Exchange Fluctuation Reserve	3,007,463	-	3,007,463
Total Equity	**522,757,942**	**16,152,690**	**538,910,632**
Total Liabilities and Equity	**7,163,094,964**	**(80,551,422)**	**7,082,543,542**

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4) Interest and Similar Income	(Nu)	
	2018	2017
Interest Income from Loans	590,509,482	447,086,842
Interest Income from Preferential Lending	3,714,991	8,130,605
Total	**594,224,473**	**455,217,447**

5) Interest & Similar Expense	(Nu)	
	2018	2017
Interest on Saving Deposits	76,499,328	57,183,627
Interest on Fixed and Recurring Deposits	305,804,285	223,288,711
Interest on Govt. Bonds	9,000,000	9,000,000
Total	**391,303,613**	**289,472,338**

6) Net Fees & Commission Income	(Nu)	
Fees & Commission Income	**2018**	**2017**
Commission Earnings	49,848,416	34,273,706
Commission on Forex	8,629,589	4,263,287
Total fees and commission income	**58,478,005**	**38,536,993**
Fees & Commission Expense	-	-
Net Fees & Commission Income	**58,478,005**	**38,536,993**

7) Other Operating Income	(Nu)	
	2018	2017
Interest on FD with other banks	40,409,925	67,010,249
Foreign Exchange Gain	37,392,028	2,121,652
Income from Investments	3,996,767	3,865,754
Other Receipts	5,552,914	3,075,742
Total	**87,351,634**	**76,073,397**

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8) Personel Expenses (Nu)

	2018	2017
Salaries, Wages and Bonus	54,916,516	50,112,754
Gratuity paid	714,461	2,317,976
Earned Leave Encashment-Staff	2,503,870	2,040,260
Pre-paid staff cost	1,679,346	1,052,166
Current Service Cost	976,583	1,201,074
Total	**60,790,776**	**56,724,230**

Till the year 2017, the Company has provided for bonus on accrual basis and from the year 2018, the Company will recognise bonus on cash basis, as per the requirements of Revenue and Customs office, Thimphu.

9) Other Operating Expenses (Nu)

	2018	2017
Advertising & Marketing	2,799,376	2,330,952
Administrative	9,895,059	8,017,953
Professional Fees	1,979,448	1,018,737
Rent Paid under operating leases	10,142,559	9,028,629
Other	38,678,320	29,113,480
Total	**63,494,762**	**49,509,751**

10) Impairment (charges)/reversal for loans and other losses (Nu)

Impairment	2018	2017
Provision as per GAAP	(26,951,884)	(45,572,666)
Addition/(Reversal) for the Years	5,012,879	10,253,508
Closing Balance as at 31 December	**(21,939,005)**	**(35,319,158)**

With the adoption of BFRS 9 - Financial Instruments, the provision for loans and advances reduced by Nu. 5,012,879 in 2018 and Nu.10,253,508 in 2017 compared to RMA provision.

11) Taxation

The major components of income tax expense for the year ended 31st December are as follows.

(Nu)

Current Income Tax	2018	2017
Income Tax for the year	(46,187,084)	(26,644,957)
Assessed Tax paid/payable pertaining to earlier years	(2,956,517)	(125,469)
Deferred Tax		
Deferred Taxation Charge/ (Reversal)	347,540	11,606,933
Income Tax expense reported in the Statement of Profit or Loss	**(48,796,061)**	**(15,163,493)**

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11.1) A reconciliation between Tax Expense and the Product of Accounting Profit	(Nu)	
	2018	**2017**
Accounting Profit before Income Tax	188,788,565	128,099,101
	188,788,565	**128,099,101**
Statutory Tax Rate	30%	30%
Computed Tax Expenses	56,636,569	38,429,730
Increase /(reduction) in the aforesaid computed tax expenses on account of :		
10% rebate for 100% Bhutanese employee	(5,663,657)	(3,842,973)
Reversal of provision not considered in Income Tax Act	(1,503,864)	(3,076,052)
Preferential Lending Income (Tax exempt)	(1,114,497)	(2,439,182)
Bonus for 2017 paid in 2018	(1,508,835)	-
10% rebate for 100% Bhutanese employee for 2016	-	(1,111,715)
Tax on Expenses reduced	(1,006,172)	(12,921,784)
Total	**45,839,544**	**15,038,024**
Adjustment recognised in current year in relation to the current tax of prior years	2,956,517	125,469
Current Tax	**48,796,061**	**15,163,493**

12) Basic Earnings Per Share	2018	2017
Total comprehensive income for the year, net of tax	139,992,504	112,935,608
Weighted Average number of Equity Shares	42,499,786	42,499,786
Basic Earnings Per Share	3.29	2.66

As per BAS-33 comparable EPS for the year 2017 has been calculated considering issue of bonus shares retrospectively from 1st January 2017

		(Nu)	
13) Cash & Cash Equivalents	**2018**	**2017**	**1st January, 2017**
Local currency on hand	127,190,824	184,475,338	51,189,483
Foreign currency on hand	4,855,951	5,518,451	3,797,711
Balance with Banks in Bhutan	88,828,832	71,529,823	75,805,513
Balance with Banks in India & Bhutan	24,429,689	229,395,106	272,315,683
Total	**245,305,296**	**490,918,718**	**403,108,390**
Less: Allowance for Expected Credit Loss	(102,973)	(145,402)	(324,999)
Total	**245,202,323**	**490,773,316**	**402,783,391**

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17) Equity instruments - at cost	(Nu) 2018	2017	1st January, 2017
Statutory Investments			
Investment in FITI (4.62% of Share Capital of FITI)	6,000,000	6,000,000	6,000,000
Investment in CIB (7% of Share Capital of CIB)	1,750,000	1,750,000	1,750,000
Total	**7,750,000**	**7,750,000**	**7,750,000**

Since the investments in Financial Institutions Traning Institute Ltd (FITI) and Credit Information Bureau (CIB) are non-coporate investments with no dividends or returns paid on the investments and due to non-availabity of fair value data, the fair value of the investments are not carried out. FITI and CIB are not listed on stock exchange.

18) Debt Instruments	(Nu) 2018	2017	1st January, 2017
Investment in Bonds	41,632,466	41,542,466	41,542,466
Less: Allowance for Expected Credit Loss	(532)	(531)	(625)
Total	**41,631,934**	**41,541,935**	**41,541,841**

19) Defined Benefit Asset	(Nu) 2018	2017	1st January, 2017
Net defined benefit asset at the beginning of current period	4,481,067	2,791,050	1,729,256
Current Service Cost	(1,226,883)	-	-
Amount recognized in the income statement	313,675	(924,571)	(1,160,576)
Amount recognized in the OCI	(2,952,532)	296,612	1,185,605
Contributions paid into the plan	-	2,317,976	-
Benefits paid by the employer	250,300	-	1,036,765
Net defined benefit asset at the end of current period	**865,627**	**4,481,067**	**2,791,050**

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Defined Benefit Plan:
A defined benefit plan/(gratuity) defines, an amount of benefit that an employee is entitled to receive on (a) retirement/ resignation or (b) on superannuation or (c) on death or disablement due to accident or disease as per the terms and conditions specified in the service rule of the bank. The benefit is dependent on factors such as age, number of years served and salary. The maximum amount an employee is entitled to receive is Nu 0.9 million in 2018 reporting period. A full actuarial valuation by a qualified independent actuary is carried out every year.

As acquired under BAS-19, valuation of scheme benefits is done by using projected unit credit method. Under this method, only benefits accrued till the date of valuation (i.e based on service till date of valuation) is to be considered for valuation.

Present Value of Defined Benefit Obligation is calculated by projecting future salaries, exits due to death, resignation and other decrements(if any) and benefit payments made during each year till the time of retirement of each active member, using assumed rates of salary escalation, mortality and employee turnover rates. The expected benefit payments are then discounted back from the expected future date of payment to the date of valuation using the assumed discount rate.

RAY & RAY CHARTERED ACCOUNTANTS

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Details of Fair Value of Plan Assets for the year ending	2018	2017
Fair Value of Assets at the beginning of the Current Period	9,328,517	9,207,799
Contribution Paid into the Plan	-	2,317,976
Expected return on Plan Assets	621,491	634,109
Benefits Paid	(396,760)	(2,616,173)
Return on Plan Assets greater or less than discount rate	17,619	(215,194)
Total	**9,570,867**	**9,328,517**

Expected Benefit Payments for the year ending	2018	2017
31st December 2018		900,144
31st December 2019	1,362,981	1,117,548
31st December 2020	1,575,663	1,347,150
31st December 2021	1,743,039	1,589,483
31st December 2022	1,880,033	1,975,630
31st December 2023	2,089,903	-
31st December 2023 to 31st December 2027	-	12,488,036
31st December 2024 to 31st December 2028	10,475,708	

Scheme Asset Allocation	2018	2017
Investment with BIL	8,518,577	7,960,590
Gratuity Payable Account	9,953,905	1,367,927
Total	**18,472,482**	**9,328,517**

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Sensitivity of assumption employed in actuarial valuation

31.12.2018	Defined Benefit Obligation	Net Effect on Defined Benefit Obligation
1) Discount Rate		
Base Discount Rate of 8%	8,705,240	-
Discount Rate of 9% (+1%)	8,223,442	(481,798)
Discount Rate of 7% (-1%)	9,246,513	541,273
2) Salary Escalation Rate		
Base Salary Escalation Rate of 6%	8,705,240	-
Salary Escalation Rate of 7%(+1%)	9,253,144	547,904
Salary Escalation Rate of 5%(-1%)	8,757,409	(495,735)

31.12.2017	Defined Benefit Obligation	Net Effect on Defined Benefit Obligation
1) Discount Rate		
Base Discount Rate of 7%	4,847,450	-
Discount Rate of 7.50% (+0.5%)	4,611,872	(235,578)
Discount Rate of 6.50% (-0.5%)	5,101,609	254,159
2) Salary Escalation Rate		
Base Salary Escalation Rate of 12%	4,847,450	-
Salary Escalation Rate of 13%(+1%)	5,032,395	184,945
Salary Escalation Rate of 11%(-1%)	4,655,706	(191,744)

Summary of Acturial Assumptions	31.12.2018	31.12.2017
Discount Rate(%)	8	7
Salary Escalation Rate(%)	6	12
Employee Turnover Rates(%)	8	8
Mortality Rates (%)	100% of IALM (2006-08)	100% of IALM (2006-08)

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20) Other Financial Assets

	(Nu)		
	2018	**2017**	**1st January, 2017**
Sundry Receivables	1,933,318	3,382,218	869,748
Security Deposits	1,012,293	904,898	752,014
Total	**2,945,611**	**4,287,116**	**1,621,762**

Security Deposits were not measured at amortised cost or fair value since the figures were not material.

21) Other Assets

	(Nu)		
	2018	**2017**	**1st January, 2017**
Balance with Gratuity Fund	8,518,577	6,700,000	6,700,000
Advance Tax paid	12,140,308	550,959	6,258,464
Stock of Stationery	3,923,114	2,109,169	1,447,670
Others (loan routine, settlement bridge)	12,863,512	4,402,711	874,385
Prepaid Staff Expense	12,264,923	10,520,685	13,457,859
Prepayments	3,449,022	3,524,264	-
Total	**53,159,456**	**27,807,788**	**28,738,378**

The Movement in Pre-Paid Staff cost

	(Nu)	
	2018	**2017**
Add / (Less): Adjustment for new grants & settlements	10,520,685	13,457,859
Less: charge to Personnel cost	3,423,584	(1,885,008)
As at 31st December	(1,679,346)	(1,052,166)
Total	**12,264,923**	**10,520,685**

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22) Property, Plant and Equipment

Cost/Revalued Amount:	Vehicles	Computer hardware	Other Equipments	IT Equipments	ATM Machines & Switch	Fixture & Improvement of Bldg	Security Equipments	Furniture & fixtures	Total
At 1 January 2017	9,485,420	19,694,074	14,814,463	10,341,614	7,239,788	2,325,235	1,851,878	8,560,421	74,312,893
Additions	870,000	2,750,093	1,588,510	3,333,679	2,002,978	1,545,582	648,450	5,202,371	17,941,662
Disposals	(944,552)	-	-	-	-	-	-	-	(944,552)
At 31 December 2017	**9,410,868**	**22,444,167**	**16,402,973**	**13,675,293**	**9,242,766**	**3,870,817**	**2,500,328**	**13,762,792**	**91,310,004**
Additions	215,594	3,524,197	5,243,396	3,215,690	4,859,746	4,933,069	32,980	871,753	22,896,426
Disposals	-	(177,300)	(93,000)	(10,000)	-	-	-	-	(280,300)
At 31 December 2018	**9,626,462**	**25,791,064**	**21,553,369**	**16,880,983**	**14,102,512**	**8,803,886**	**2,533,308**	**14,634,545**	**113,926,130**
Accumulated Depreciation	**Vehicles**	**Computer hardware**	**Other Equipments**	**IT Equipments**	**ATM Machines & Switch**	**Fixture & Improvement of Bldg**	**Security Equipments**	**Furniture & fixtures**	**Total**
At 1 January 2017	6,055,498	13,170,078	10,578,828	9,488,365	6,034,084	2,325,226	1,420,163	5,952,638	55,024,881
Charge for the year	979,510	1,854,701	1,688,821	656,320	765,631	152,020	217,758	1,322,903	7,637,665
Disposals	(944,551)	-	-	-	-	-	-	-	(944,551)
At 31 December 2017	**6,090,458**	**15,024,779**	**12,267,649**	**10,144,685**	**6,799,716**	**2,477,245**	**1,637,921**	**7,275,541**	**61,717,995**
Charge for the year	632,800	2,051,329	1,699,017	902,309	878,093	645,062	203,442	1,289,927	8,301,980
Disposals	-	(177,299)	(45,023)	-	-	-	-	-	(222,322)
At 31 December 2018	**6,723,258**	**16,898,808**	**13,921,644**	**11,046,994**	**7,677,809**	**3,122,307**	**1,841,364**	**8,565,468**	**69,797,653**
Net book value:									
2016 December	3,429,922	6,523,997	4,235,635	853,249	1,205,704	9	431,714	2,607,783	19,288,012
2017 December	3,320,409	7,419,388	4,135,324	3,530,608	2,443,050	1,393,571	862,406	6,487,251	29,592,009
2018 December	2,903,203	8,892,256	7,631,726	5,833,989	6,424,703	5,681,578	691,944	6,069,077	44,128,478

23) Intangible Assets

Cost:	Softwares (Nu)
At 1 January 2017	**22,406,955**
Additions	23,123,386
Disposals	-
At 31 December 2017	**45,530,341**
Additions	18,161,738
Disposals	-
At 31 December 2018	**63,692,079**
Amortisation and impairment:	
At 1 January 2017	**21,293,661**
Amortisation	3,065,593
Disposals	-
At 31 December 2017	**24,359,254**
Amortisation	5,435,411
Disposals	-
At 31 December 2018	**29,794,665**
Net book value:	
At 1 January 2017	1,113,294
At 31 December 2017	21,171,087
At 31 December 2018	33,897,414

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24) Due to Customers	(Nu) 2018	2017	1st January, 2017
Fixed Deposit	2,904,540,866	1,956,547,651	1,557,146,368
Recurring Deposit	51,941,069	35,126,207	27,635,800
Savings Deposits	2,373,761,690	958,909,333	868,644,730
Current Accounts	523,458,314	1,461,398,339	804,983,226
Interest Payable	223,662,837	167,920,049	123,804,185
Deposit EIR adjustment	(13,085,766)	(8,454,887)	(617,815)
Total	**6,064,279,010**	**4,571,446,692**	**3,381,596,494**

25) Due to Other Banks	(Nu) 2018	2017	1st January, 2017
Bank of Bhutan Limited	-	-	300,000,000
Bhutan Development Bank Limited	456,717,743	240,566,356	348,792,610
Bhutan National Bank Limited	900,000,000	1,000,000,000	700,000,000
Druk PNB Limited	526,836,973	450,000,000	100,000,000
Total	**1,883,554,716**	**1,690,566,356**	**1,448,792,610**

26) Debts issued and Other Borrowed Funds	(Nu) 2018	2017	1st January, 2017
Subordinate Bonds from Royal Government of Bhutan (150,000 nos. at face value of Nu. 1,000) at coupon rate of 6% p.a. maturing on April, 2024	150,000,000	150,000,000	150,000,000
Total	**150,000,000**	**150,000,000**	**150,000,000**

27) Current Tax Liabilities	(Nu) 2018	2017	1st January, 2017
Balance as at 1st January	**26,644,957**	**11,117,146**	**15,751,845**
Current year provision	49,143,601	26,644,957	11,117,146
Less: Payment of tax	(26,644,957)	(11,117,146)	(15,751,845)
Balance as at 31st December	**49,143,601**	**26,644,957**	**11,117,146**
Differed Tax Liabilities	5,689,282	6,922,581	18,618,498
Total Tax Liability	**54,832,883**	**33,567,538**	**29,735,644**

28) Analysis of Financial Instruments By Measurement Basis

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognized. The following table analyses the carrying amounts of the financial instruments by category as defined in Bhutanese Accounting Standard - BAS 39 (Financial Instruments: Recognition & Measurement) under headings of the Statement of Financial Position.

As at 1-Jan-2017	Held for Trading	Amortised Cost	Held to maturity	AFS	Total
Analysis of Financial Instruments by Measurment Basis					
Financial Assets					
Cash & cash Equivalents		402,783,391			402,783,391
Cash & Balances with Central Bank		803,589,047			803,589,047
Placement with other Banks		673,862,543			673,862,543
Loans & Advances to Customers		3,653,038,441			3,653,038,441

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Due to Banks	1,883,554,716	1,883,554,716
Debts issued and Other Borrowed Funds	150,000,000	150,000,000
Other Financial Liabilities	175,486,281	175,486,281

29) Deferred Taxation	Reflected in Statement of Financial Position (Nu)			Reflected in Statement of Comprehensive Income (Nu)	
	2018	2017	2016	2018	2017
Deferred Tax Assets, Liabilities and Income Tax relates to the followings					
Defined Benefit Asset	259,688	1,344,320	837,315	1,084,632	(507,005)
Deposit EIR	3,925,730	2,536,466	185,344	(1,389,264)	(2,351,122)
GAAP vs BFRS Provision on Loan & Other Financial Assets	1,503,864	3,041,795	17,595,839	1,537,932	14,554,043
Total	**5,689,282**	**6,922,581**	**18,618,498**	**1,233,300**	**11,695,916**

Deferred Tax has been determined based on the enacted tax rate @ 30%

30) Other Liabilities	(Nu)		
	2018	2017	1st January, 2017
Financial			
Sundry Creditors	1,052,862	1,307,810	281,603
Provision Against Off-Balance Sheet items	443,118	57,095	179,978
Others	173,990,301	96,418,772	143,211,510
Non Financial			
Others	1,165,830	268,647	281,483
Total	**176,652,111**	**98,052,324**	**143,954,574**

31) Share Capital	(Nu)		
	2018	2017	1st January, 2017
Share Capital (30,000,000 shares of Nu.10/- each fully paid)	300,000,000	300,000,000	300,000,000
Bonus Shares issued (12,497,786 shares of Nu.10/- each fully paid)	124,997,860	-	-
Total Share Capital	**424,997,860**	**300,000,000**	**300,000,000**

31.1) Reconciliation of Equity Share Capital	Number of shares	Equity share capital (par value)
As at 1st January 2017	**30,000,000**	**10**
Change during the year	-	-
As at 31st December 2017	**30,000,000**	**10**
Change during the year (Bonus shares issued)	12,499,786	10
As at 31st December 2018	**42,499,786**	**10**

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32) Reserve & Surplus		(Nu)	
Retained Earnings	**2018**	**2017**	**1st January, 2017**
Opening Balance	235,903,169	179,561,387	136,118,226
Profit during the year as per Statement Comprehensive Income	139,992,504	112,935,608	-
Other Comprehensive Income, net of tax	(2,066,772)	207,628	-
Adjustments (Bonus Shares issue)	(124,997,860)	-	-
Add: Addition during the year to Exchange Fluctuation Reserve	(9,348,007)	(530,413)	
BFRS Adjustment (Ref -Note below 32.1)	(10,139,317)	(56,271,041)	43,443,161
Balance as per BAS/BFRS	**229,343,717**	**235,903,169**	**179,561,387**
Exchange Fluctuation Reserve			
Opening Balance	3,007,463	2,477,050	1,873,406
Add: Addition during the year	9,348,007	530,413	603,644
Closing Balance	**12,355,470**	**3,007,463**	**2,477,050**
Total Reserves & Surplus	**241,699,187**	**238,910,632**	**182,038,437**

32.1) The Company has adopted BFRS – 9 and prepared the BAS complied financial statements for the year 2018 with the transition date 1st January, 2017. In these financial statements, company has made a provision for impairment loss on loans as per BFRS -9 which is less than the RMA provision amount. The company has opted to adjust the differential amount against 'Retained Earnings' under the heading "BFRS adjustment" and in the year 2018 this adjusted amount is Nu 10,139,317/-.

33) Committement and Contingencies

To meet the financial needs of customers in the ordinary course of business, the Bank enters into various irrevocable commitments and incurs certain contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Letters of credit & guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. No material losses are anticipated as a result of these commitments and contingencies.

33.1) Committement and Contingencies		(Nu)	
	2018	**2017**	**1st January, 2017**
Contingent Liabilities			
Performance Guarantees	26,994,398	-	26,069,721
Financial Guarantees	10,582,738	33,714,545	24,574,819
Import Letter of Credits	276,005,744	253,756,094	125,369,743
Income tax demand not acknowledged as debt	166,146	-	-
Commitment & contingencies	**313,749,026**	**287,470,639**	**176,014,283**

33.2) Other Contingent Liabilities

Litigation against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At the year end, the Bank has no such unresolved legal claims.

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34) Related Party Disclosures

The Bank carries out transactions in the ordinary course of business with the parties who are defined as related parties in the Bhutanese Accounting Standard - BAS 24 (Related Party Disclosures), the details of which are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with what is applied to transactions between the Bank and its unrelated customers.

34.1) Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

34.2) Transactions with Key Managerial Personnel (KMPs)

According to Bhutanese Accounting Standard - BAS 24 (Related Party Disclosures) Key Managerial Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. Such KMPs include the Board of Directors of the Bank (including both Executive and Non Executive Directors), key employees who are holding directorship in Subsidiary companies of the Bank, Close Family Members (CFM) of the KMPs are those family members who may be expected to influence or be influenced by that KMPs in their dealing with the entity. They may include KMPs domestic partner and children of the KMPs domestic partner and dependants of the KMPs and the KMPs domestic partner.

34.2.1) Transactions with Key Managerial Personnel (KMPs) **(Nu)**

	2018	2017
Remuneration paid to CEO	3,554,741	3,555,604
Sitting Fees paid to CEO	92,000	70,000
Directors' fees & expenses	700,396	623,000
Total	**4,347,137**	**4,248,604**

In addition to the above, the Bank has also paid non cash benefits such as fuel and medical benefits to KMPs in line with the approved benefit plans of the Bank.

34.3) Transactions, Arrangements and Agreements Involving KMPs and Their CFMs

34.3.1) Loans and Advances to KMPs and their CFMs are detailed below:

	2018		2017		1st January 2017		Average Balance	
	Limit	Closing Balance	Limit	Closing Balance	Limit	Closing Balance	2018	2017
Loans and Receivables	7,939,325	6,660,521	7,939,325	7,320,057	656,325	610,320	13,980,578	7,930,376

34.3.3) Deposits from KMPs and their CFMs are detailed below:

	Closing Balance			Average Balance	
	2018	2017	1st January 2017	2018	2017
Deposits	2,635,804	496,385	118,323	3,132,189	614,708

34.4) Transactions, Arrangements and Agreements involving Entities which are controlled and / or jointly controlled by the KMPs or their CFMs:

Loans & receivables:		Closing Balance			Average Balance	
		2018	2017	1st January 2017	2018	2017
BCCL	Term Loan	-	51,943,550	51,626,772	25,971,775	51,785,161
Bhutan Fruit Products	Overdraft Facility	32,114,418	39,579,673	40,273,664	35,847,046	39,926,669
Dasho Wangchuk Dorji	Term Loan	-	677,677	866,528	338,839	772,103
Druk Petroleum Corporation	Overdraft Facility	-	4,033,495	213,707	2,016,747	2,123,601
Tashi Thuendrei Lerig	Overdraft Facility	29,886,229	29,590,577	8,113,591	29,738,403	18,852,084
Tashi Metals Private Limited	Overdraft Facility	7,438,801	75,341,146	-	41,389,973	37,670,573
Tashi Metals Private Limited	Term Loan	69,699,910	-	-	34,849,955	-
Tashi Tours and Travel	Overdraft Facility	-	-	-	-	-

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Tashi Tours and Travel	Term Loan	363,958	-	-	181,979	-
Bhutan Airlines	Term Loan	1,652,059	-	-	826,030	-
Tashi InfoComm Ltd.	Overdraft Facility	10,075,945	-	-	5,037,972	-
Bhutan Hyundai Motors	Overdraft Facility	51,860	-	36,568,010	25,930	18,284,005
Dasho Topgyal Dorji	Overdraft Facility	47,201,076	-	27,406,707	23,600,538	13,703,354
Tashi Commercial Corporation	Overdraft Facility	1,870,659	-	19,858,509	935,329	9,929,255
Tashi Commercial Complex	Overdraft Facility	29,360,403	-	-	-	-
Tashi Spare parts	Overdraft Facility	-	-	1,776,802	-	888,401
Tashi Phuntsholing Complex	Term Loan	-	-	19,858,509	-	9,929,255
Tashi Industries Corporation	Overdraft Facility	1,259,123	-	-	-	-
RICBL	Overdraft Facility	150,957,580	-	-	-	-
Bhutan Oil Distributors	Overdraft Facility	2,998,415	-	-	-	-
SKW Tashi Metals & Alloys Pvt. Ltd.	Overdraft Facility	17,769,625	-	-	-	-
TICMATHA	Overdraft Facility	-	-	980,531	-	490,266
TRTI	Overdraft Facility	-	-	495,854	-	247,927
Documentary Credits						
Bhutan Hyundai Motors		6,446,469	-	-	3,223,235	-
Guarantees						
Bhutan Airlines		7,799,500	-	-	3,899,750	-
Corporate Bonds						
Tashi Air Pvt. Ltd.		20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Total		**436,946,030**	**221,166,118**	**228,039,184**	**227,883,501**	**224,602,654**

34.5) Goods and Services Purchased

During the year, the Bank purchased goods and services from entities where KMPs have either control and / or joint control.

(Nu)

	2018	**2017**
Tashi Real Estate Pvt. Ltd	5,160,241	5,190,728
Bhutan Brewery Pvt. Ltd.	480,000	240,000
Tashi InfoComm Ltd.	1,821,301	2,483,067
Hotel Druk	155,439	189,826
RICBL	1,172,553	872,131
Total	**8,789,534**	**8,975,752**

34.6) Transactions with Subsidiaries

The Bank has no subsidiaries.

35) Events After The Reporting Period

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements.

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36) Fair value of Financial Instruments

Financial Instruments Recorded at Fair Value
The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Trading Assets and Other Assets Measured at Fair Value
Trading assets and other assets measured at fair value are the Government debt securities and quoted equities. For quoted equities the Bank uses quoted market prices in the active market as at the reporting date.

Determination of Fair Value and Fair Value Hierarchy
For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Bank uses alternative market information to validate the financial instrument's fair value, with greater weight given toinformation that is considered to be more relevant and reliable.

Fair values are determined according to the following hierarchy:
Level 1 - Quoted Market Price (unadjusted): financial instruments with quoted prices for identical instruments in active markets.

Level 2 - Valuation Technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 - Valuation Technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

31st December 2018	Level I	Level II	Level III
Financial Investment at cost	-	-	7,750,000
31st December 2017			
Financial Investment at cost	-	-	7,750,000
1st January 2017			
Financial Investment at cost	-	-	7,750,000

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

For Investment in equity instrument, it is assumed that the carrying amount approximates their fair value.

Fixed Rate Financial Instruments
The fair value of fixed rate financial assets & liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity.

For quoted debt issued.
The fair values are determined based on quoted market prices. For those not issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

For other variable rate instruments
An adjustment is also made to reflect the change in required credit spread since the instrument was first recognized. Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non financial assets and non financial liabilities.

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	(Nu) 2018		(Nu) 2017		(Nu) 1st January, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value

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Regional Break-up of Loans(Gross Loans)	
Gelephu	262,298,211
Mongar	102,618,654
Paro	293,375,670
Phuentsholing	605,215,525
Samdrupjongkhar	102,338,985
Samtse	26,875,416
Thimphu	4,441,493,368
Trashigang	36,197,373
Wangdue	381,217,978
Total	**6,251,631,180**

Country Risk - Geographical Analysis

As at 31-Dec-2017	Bhutan	Asia	Americas	Total
Cash & cash Equivalents	261,476,202	229,297,114	-	490,773,316
Cash & Balances with Central Bank	1,032,492,997	-	-	1,032,492,997
Placement with other Banks	564,256,857	-	-	564,256,857
Loans & Advances to Customers	4,858,389,370	-	-	4,858,389,370
Equity Instruments	7,750,000	-	-	7,750,000
Debt Instruments	41,541,935	-	-	41,541,935
Other Financial Assets	4,287,116	-	-	4,287,116

Regional Break-up of Loans(Gross Loans)	
Gelephu	229,760,339
Mongar	53,546,498
Paro	193,484,615
Phuentsholing	532,278,750
Samdrupjongkhar	50,744,589
Thimphu	3,536,318,673
Wangdue	262,255,906
Total	**4,858,389,370**

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Country Risk - Geographical Analysis

As at 01-Jan-2017	Bhutan	Asia	Americas	Total
Cash & cash Equivalents	130,709,140	272,074,251	-	402,783,391
Cash & Balances with Central Bank	803,589,047	-	-	803,589,047
Placement with other Banks	673,862,543	-	-	673,862,543
Loans & Advances to Customers	3,653,038,441	-	-	3,653,038,441
Equity Instruments	7,750,000	-	-	7,750,000
Debt Instruments	41,541,841	-	-	41,541,841
Other Financial Assets	1,621,762	-	-	1,621,762

Regional Break-up of Loans(Gross Loans)	
Gelephu	186,383,367
Paro	77,166,581
Phuentsholing	453,055,851
Thimphu	2,748,663,640
Wangdue	187,769,002
Total	**3,653,038,441**

Industry Analysis:

31st Dec 2018	Industrial	Govt.	Services & tourism	Construction	Financial Services	Transport	Trade & Commerce	Consumer	Others	Total
Balances with Central Bank	-	-	-	-	-	-	-	-	1,070,772,154	1,070,772,154
Placement with other Banks	-	-	-	-	-	-	-	-	1,244,031,590	1,244,031,590
Loans & Advances to Customers	189,602,555	-	693,429,668	2,160,520,659	-	211,137,892	89,772,025	952,500,503	1,954,667,878	6,251,631,180
Equity Instruments	-	-	-	-	-	-	-	-	7,750,000	7,750,000
Debt Instruments	41,631,934	-	-	-	-	-	-	-		41,631,934
Other Financial Assets	-	-	-	-	-	-	-	-	2,945,611	2,945,611

31st Dec 2017	Industrial	Govt.	Services & tourism	Construction	Financial Services	Transport	Trade & Commerce	Consumer	Others	Total
Balances with Central Bank	-	-	-	-	-	-	-	-	1,032,492,997	1,032,492,997
Placement with other Banks	-	-	-	-	-	-	-	-	564,256,857	564,256,857
Loans & Advances to Customers	202,283,157	-	385,402,547	1,598,641,650	-	226,060,068	111,855,215	823,938,547	1,510,208,186	4,858,389,370
Equity Instruments	-	-	-	-	-	-	-	-	7,750,000	7,750,000
Debt Instruments	41,541,935	-	-	-	-	-	-	-	-	41,541,935
Other Financial Assets	-	-	-	-	-	-	-	-	4,287,116	4,287,116

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1st Jan 2017	Industrial	Govt.	Services & tourism	Construction	Financial Services	Transport	Trade & Commerce	Consumer	Others	Total
Balances with Central Bank	-	-	-	-	-	-	-	-	803,589,047	803,589,047
Placement with other Banks	-	-	-	-	-	-	-	-	673,862,543	673,862,543
Loans & Advances to Customers	123,341,230	-	419,332,046	1,024,010,630	-	214,933,078	95,368,448	87,685,696	1,688,367,313	3,653,038,441
Equity Instruments	-	-	-	-	-	-	-	-	7,750,000	7,750,000
Debt Instruments	41,541,841	-	-	-	-	-	-	-	-	41,541,841
Other Financial Assets	-	-	-	-	-	-	-	-	1,621,762	1,621,762

Economic sector risk concentrations within the gross loans and advances to customers are as follows:

	31st December 2018		As at 31-Dec-2017	
	Amount (Nu.)	%	Amount (Nu.)	%
Industrial	189,602,555	3.03%	202,283,157	4.16%
Services & tourism	693,429,668	11.09%	385,402,547	7.93%
Construction	2,160,520,659	34.56%	1,598,641,650	32.90%
Transport	211,137,892	3.38%	226,060,068	4.65%
Trade & Commerce	89,772,025	1.44%	111,855,215	2.30%
Consumer	952,500,503	15.24%	823,938,547	16.96%
Others	1,954,667,878	31.27%	1,510,208,186	31.08%
Total	**6,251,631,180**	**100%**	**4,858,389,370**	**100%**

37.2) Liquidity Risk & Funding management

The tables below summarise the maturity profile of the undiscounted cash flows of the Bank's financial assets and financial liabilities as at 31st December 2018. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

31st December 2018	up to 3 months	3 to 12 months	1 to 3 years	3-5 years	Over 5 years	Total
Cash & cash Equivalents	245,202,323	-	-	-	-	245,202,323
Cash & Balances with Central Bank	1,070,772,154	-	-	-	-	1,070,772,154
Placement with other Banks	-	1,244,031,590	-	-	-	1,244,031,590
Loans & Advances to Customers	717,674,585		1,958,310	2,090,750,008	3,441,248,277	6,251,631,180
Equity Instruments	-	-	-	-	7,750,000	7,750,000
Debt Instruments	-	-	-	-	41,631,934	41,631,934
Other Financial Assets	-	2,945,611	-	-	-	2,945,611
Total Assets	**2,033,649,062**	**1,246,977,201**	**1,958,310**	**2,090,750,008**	**3,490,630,211**	**8,863,964,792**
Due to Banks	1,480,257,045	403,297,671	-	-	-	1,883,554,716
Due to Customers	2,897,220,005	455,224,121	1,330,731,801	882,083,851	499,019,232	6,064,279,010
Debts Issued & Other Borrowed Funds	-	-	-	-	150,000,000	150,000,000
Other Financial Liabilities	-	87,743,140	87,743,141	-	-	175,486,281
Total Liabilities	**4,377,477,050**	**946,264,932**	**1,418,474,942**	**882,083,851**	**649,019,232**	**8,273,320,007**
Net Financial Assets/(Liabilities)	**(2,343,827,988)**	**300,712,269**	**(1,416,516,632)**	**1,208,666,157**	**2,841,610,979**	**590,644,785**

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31st December 2017	up to 3 months	3 to 12 months	1 to 3 years	3-5 years	Over 5 years	Total
Cash & cash Equivalents	490,773,316	-	-	-	-	490,773,316
Cash & Balances with Central Bank	1,032,492,997	-	-	-	-	1,032,492,997
Placement with other Banks	-	564,256,857	-	-	-	564,256,857
Loans & Advances to Customers	630,530,000	931,224,553	-	807,620,473	2,489,014,344	4,858,389,370
Equity Instruments	-	-	-	-	7,750,000	7,750,000
Debt Instruments	-	-	-	-	41,541,935	41,541,935
Other Financial Assets	-	4,287,116	-	-	-	4,287,116
Total Assets	**2,153,796,313**	**1,499,768,526**	**-**	**807,620,473**	**2,538,306,279**	**6,999,491,591**
Due to Banks	-	1,490,566,356	200,000,000	-	-	1,690,566,356
Due to Customers	2,420,307,672	180,453,644	781,960,000	859,710,000	329,015,376	4,571,446,692
Debts Issued & Other Borrowed Funds	-	-	-	-	150,000,000	150,000,000
Other Financial Liabilities		48,891,838	48,891,839	-	-	97,783,677
Total Liabilities	**2,420,307,672**	**1,719,911,838**	**1,030,851,839**	**859,710,000**	**479,015,376**	**6,509,796,725**
Net Financial Assets/(Liabilities)	**(266,511,359)**	**(220,143,312)**	**(1,030,851,839)**	**(52,089,527)**	**2,059,290,903**	**489,694,866**

1st January 2017	up to 3 months	3 to 12 months	1 to 3 years	3-5 years	Over 5 years	Total
Cash & cash Equivalents	402,783,391	-	-	-	-	402,783,391
Cash & Balances with Central Bank	803,589,047	-	-	-	-	803,589,047
Placement with other Banks	-	673,862,543	-	-	-	673,862,543
Loans & Advances to Customers	-	788,187,465	426,828	622,366,197	2,242,057,951	3,653,038,441
Equity Instruments	-	-	-	-	7,750,000	7,750,000
Debt Instruments	-	-	-	-	41,541,841	41,541,841
Other Financial Assets	-	1,621,762	-	-	-	1,621,762
Total Assets	**1,206,372,438**	**1,463,671,770**	**426,828**	**622,366,197**	**2,291,349,792**	**5,584,187,025**
Due to Banks	-	1,448,792,610	-	-	-	1,448,792,610
Due to Customers	1,673,627,955	418,317,177	644,307,740	490,281,146	155,062,476	3,381,596,494
Debts Issued & Other Borrowed Funds	-	-	-	-	150,000,000	150,000,000
Other Financial Liabilities	-	71,836,546	71,836,545	-	-	143,673,091
Total Liabilities	**1,673,627,955**	**1,938,946,333**	**716,144,285**	**490,281,146**	**305,062,476**	**5,124,062,195**
Net Financial Assets/(Liabilities)	**(467,255,517)**	**(475,274,563)**	**(715,717,457)**	**132,085,051**	**1,986,287,316**	**460,124,830**

37.3) Contractual Maturities of Commitments and Contingencies

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31 Dec 2018	On Demand	Less than 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
Contingencies							
Financial guarantees	-	-	10,582,738	-	-	-	10,582,738
Performance guarantees	-	-	26,994,398	-	-	-	26,994,398
Letter of Credits	-	-	276,005,744	-	-	-	276,005,744
Total Contingencies	**-**	**-**	**313,582,880**	**-**	**-**	**-**	**313,582,880**

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As at 31 Dec 2017	On Demand	Less than 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
Contingencies							
Financial guarantees	-	-	33,714,545	-	-	-	33,714,545
Letter of Credits	-	-	253,756,094	-	-	-	253,756,094
Total Contingencies	-	-	**287,470,639**	-	-	-	**287,470,639**

As at 1 Jan 2017	On Demand	Less than 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
Contingencies							
Financial guarantees	-	-	24,574,819	-	-	-	24,574,819
Performance guarantees	-	-	26,069,721	-	-	-	26,069,721
Letter of Credits	-	-	125,369,743	-	-	-	125,369,743
Total Contingencies	-	-	**176,014,283**	-	-	-	**176,014,283**
Commitments							
Undrawn OD	-	-	26,069,721	-	-	-	26,069,721
Undrawn loans	-	-	-	-	-	-	-
Total Commitments	-	-	**26,069,721**	-	-	-	**26,069,721**

37.4 Market Risk - Interest Rate Risk

The below table analyses the bank interest rate risk exposure on non-trading financial assets and liabilities. The bank's assets & liabilities are included at carrying amount and catagorized by the earlier of contractual re-pricing or maturity dates.

31st December 2018	Upto 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non-Interest Bearing	Total
Placement with other Banks	-	1,244,031,590	-	-	-	-	1,244,031,590
Loans & Advances to Customers	717,674,585	-	1,958,310	2,090,750,008	3,441,248,277	-	6,251,631,180
Debt Instruments	-	-	-	-	41,631,934	-	41,631,934
Total Assets	**717,674,585**	**1,244,031,590**	**1,958,310**	**2,090,750,008**	**3,482,880,211**	**-**	**7,537,294,704**
Due to Banks	1,480,257,045	403,297,671	-	-	-		**1,883,554,716**
Due to Customers	2,897,220,005	455,224,121	1,330,731,801	882,083,851	499,019,232	-	**6,064,279,010**
Debts Issued & Other Borrowed Funds	-	-	-	-	150,000,000	-	150,000,000
Total Liabilities	**4,377,477,050**	**858,521,792**	**1,330,731,801**	**882,083,851**	**649,019,232**	-	**8,097,833,726**
Interest Rate sensitivity Gap	**(3,659,802,465)**	**385,509,798**	**(1,328,773,491)**	**1,208,666,157**	**2,833,860,979**	**-**	**(560,539,022)**

31st December 2017	Upto 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non-Interest Bearing	Total
Placement with other Banks	-	564,256,857	-	-	-	-	564,256,857
Loans & Advances to Customers	630,530,000	931,224,553	-	807,620,473	2,489,014,344	-	4,858,389,370
Debt Instruments	-	-	-	-	41,541,935	-	41,541,935
Total Assets	**630,530,000**	**1,495,481,410**	**-**	**807,620,473**	**2,530,556,279**	**-**	**5,464,188,162**

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Due to Banks	-	1,490,566,356	200,000,000	-	-	-	1,690,566,356
Due to Customers	2,420,307,672	180,453,644	781,960,000	859,710,000	329,015,376	-	4,571,446,692
Debts Issued & Other Borrowed Funds	-	-	-	-	150,000,000	-	150,000,000
Total Liabilities	**2,420,307,672**	**1,671,020,000**	**981,960,000**	**859,710,000**	**479,015,376**	-	**6,412,013,048**
Interest Rate sensitivity Gap	**(1,789,777,672)**	**(175,538,590)**	**(981,960,000)**	**(52,089,527)**	**2,051,540,903**	-	**(947,824,886)**

37.4.1 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, commodity prices and equity prices. The Bank classifies exposures to market risk into either trading or non trading portfolios and manages each of those portfolios separately.

37.4.2 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank's policy is to continuously monitor positions on a daily basis and various strategies are used to ensure positions are maintained within prudential levels. The following tables demonstrate the sensitivity of the Bank's Statement of Comprehensive Income as at 31st December 2017 and 31st December 2018 to a reasonable possible change in interest rates, with all other variables held constant.

Rate Sensitive Assets (RSA) & Rate Sensitive Liabilities (RSL) as at 31st December

	2018	2017
Rate Sensitive Assets (RSA)*	7,537,294,704	5,464,188,162
Rate Sensitive Liabilities (RSL)*	8,097,833,726	6,412,013,048
GAP (RSA - RSL)	(560,539,023)	(947,824,885)

Impact on Income Statement due to Interest Rate Shocks as at 31st December

Interest Rate Shock	2018	2017
0.50%	(2,802,695)	(4,739,124)
1.00%	(5,605,390)	(9,478,249)
-0.50%	2,802,695	4,739,124
-1.00%	5,605,390	9,478,249

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37.5) Currency Risk

The table below indicates the currencies to which the bank had significant exposure as at 31 December 2018. The analysis calculates the effect of a reasonable possible movement of the currencies against the Ngutrum (Nu).

	2018			2017		
	Change in currency rate in %	Effect on profit before tax	Effect on Equity	Change in currency rate in %	Effect on profit before tax	Effect on Equity
USD	9.67%	37,392,028	26,174,420	-6.03%	2,121,652	1,485,156

37.6) Operational Risk

Operational risk is the risk of losses arising from failed internal processes, systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

Reputational Risks are not covered in Operational Risk.

Operational Risks of the Bank are mitigated and managed through a Board approved Operational Risk Management Policy control framework which consists of monitoring and responding to potential risks.

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37.7) Maturity Gap Analysis

As at 31 Dec 2018	Within 12 Months	After 12 Months
Assets		
Cash & cash Equivalents	245,202,323	-
Cash & Balances with Central Bank	1,070,772,154	-
Placement with other Banks	1,244,031,590	-
Loans & Advances to Customers	717,674,585	5,533,956,595
Equity Instruments	-	7,750,000
Debt Instruments	-	41,631,934
Defined Benefit Assets	-	865,627
Other Financial Assets	2,945,611	-
Other Assets	53,159,456	-
Property, Plant & Equipment	-	44,128,478
Intangible Assets	-	33,897,414
Total Assets	**3,333,785,719**	**5,662,230,048**
Liabilities		
Due to Customers	3,352,444,126	2,711,834,884
Due to Banks	1,883,554,716	-
Debt issued and Other Borrowed Funds	-	150,000,000
Current Tax Liabilities	49,143,601	-
Differed Tax Liability	-	5,689,282
Other Liabilities	88,326,055	88,326,056
Total Liabilities	**5,373,468,498**	**2,955,850,222**
Maturity Gap	**(2,039,682,779)**	**2,706,379,826**
Cumulative Gap	**(3,450,358,532)**	**5,138,004,648**

As at 31 Dec 2017	Within 12 Months	After 12 Months
Assets		
Cash & cash Equivalents	490,773,316	-
Cash & Balances with Central Bank	1,032,492,997	-
Placement with other Banks	564,256,857	-
Loans & Advances to Customers	1,561,754,553	3,296,634,817
Equity Instruments	-	7,750,000
Debt Instruments	-	41,541,935
Defined Benefit Assets	-	4,481,067
Other Financial Assets	4,287,116	-
Other Assets	27,807,788	-
Property, Plant & Equipment	-	29,592,009
Intangible Assets	-	21,171,087
Total Assets	**3,681,372,627**	**3,401,170,915**

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38) Management of Capital

The Bank's main objectives of managing capital are:

(i) to comply with the Capital Requirements set by the Royal Monetary Authority and debt covenants;
(ii) to safeguard the Bank's ability to continue as a going concern; and
(iii) to maintain a sufficient capital base to achieve a Capital Adequacy Ratio of the Bank based on Prudential Regulations 2017 issued by Royal Monetary Authority of Bhutan of at least 10%.

Capital Adequacy Ratio is monitored daily for compliance with the requirements set by the Royal Monetary Authority and monthly for other objectives of Capital Management.

The Bank's policy of Capital Management is designated to maintain the capital base sufficient to keep the confidence of stakeholders and to secure the future development of the Bank.The Royal Monetary Authority establishes and monitors capital adequacy limits for the Bank. The Bank performs medium and long term planning of growth in the asset side considering sufficiency of capital. When necessary, the Bank develops and implements measures to increase its capital base.

To ensure compliance with the Capital Adequacy Ratio in the short run, the Bank monitors use of capital by business segments. Responsibilty for approval procedures and monitoring of the Capital use is with the management of the Bank.

	2018 Nu	2017 Nu
Tier 1 Capital		
Paid-up Share Capital	424,997,860	300,000,000
Retained Earnings	216,068,725	219,750,479
Total	**641,066,585**	**519,750,479**
Tier 2 Capital		
Foreign Exchange Fluctuation Reserve	12,355,470	3,007,463
General Provision as per RMA Prudential Norms	63,214,106	49,411,168
Subordinate debt	150,000,000	150,000,000
Total	**225,569,576**	**202,418,631**
Total Capital	**866,636,161**	**722,169,110**

(Above figures are based on local GAAP in compliance with RMA Prudential Regulations 2017)

The Bank complied with all the RMA Prudentional Regulations 2017 requirements during 2018.

39) Segment Information

The following table presents Income & Expense and Assets & Liabilities information about the bank's operating segments:

31st December 2018	Thimphu	Phuentsholing	Others	Total
Interest & Similar Income	436,726,166	59,042,163	98,456,144	594,224,473
Interest & Similar Expense	292,317,914	64,795,286	34,190,413	391,303,613
Net interest income	**144,408,252**	**(5,753,123)**	**64,265,731**	**202,920,860**
Fee and commission income	33,795,521	17,278,799	7,403,685	58,478,005
Fee and commission expenses	-	-	-	-
Net fee and commission income	**33,795,521**	**17,278,799**	**7,403,685**	**58,478,005**
Other Operating Income	87,409,338	(203,832)	146,128	87,351,634
Total operating income	**265,613,111**	**11,321,844**	**71,815,544**	**348,750,499**
Personnel Expenses	15,479,895	6,067,391	39,243,490	60,790,776
Depreciation on Property Plant & Equipment	4,970,423	271,864	3,059,693	8,301,980
Amortization of Intangible Assets	4,311,075	-	1,124,336	5,435,411
Other Operating Expenses	49,297,695	3,279,620	10,917,447	63,494,762
Impairment (charges)/reversal for loans and other losses	21,939,005	-	-	21,939,005
Total Operating Expenses	**95,998,093**	**9,618,875**	**54,344,966**	**159,961,934**
Segment Profits	**169,615,018**	**1,702,969**	**17,470,578**	**188,788,565**
Total Assets	**7,043,027,694**	**566,295,020**	**1,386,693,053**	**8,996,015,767**
Total Liabilities	**7,086,462,804**	**564,763,205**	**1,344,789,758**	**8,996,015,767**

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31st December 2017	Thimphu	Phuentsholing	Others	Total
Interest & Similar Income	336,028,883	53,434,518	65,754,046	455,217,447
Interest & Similar Expense	222,890,826	39,222,583	27,358,929	289,472,338
Net interest income	**113,138,057**	**14,211,935**	**38,395,117**	**165,745,109**
Fee and commission income	21,398,366	13,019,008	4,119,619	38,536,993
Fee and commission expenses	-	-	-	-
Net fee and commission income	**21,398,366**	**13,019,008**	**4,119,619**	**38,536,993**
Other Operating Income	75,425,300	387,503	260,594	76,073,397
Total operating income	**209,961,723**	**27,618,446**	**42,775,330**	**280,355,499**
Personnel Expenses	38,506,647	6,544,406	11,673,177	56,724,230
Depreciation on Property Plant & Equipment	4,562,288	704,758	2,370,619	7,637,665
Amortization of Intangible Assets	2,492,868	-	572,725	3,065,593
Other Operating Expenses	37,988,354	2,565,487	8,955,910	49,509,751
Impairment (charges)/reversal for loans and other losses	35,319,158	-	-	35,319,158
Total Operating Expenses	**118,869,315**	**9,814,651**	**23,572,431**	**152,256,397**
Segment Profits	**91,092,408**	**17,803,795**	**19,202,899**	**128,099,101**
Total Assets	**5,569,804,989**	**494,582,889**	**1,018,155,664**	**7,082,543,542**
Total Liabilities	**5,606,818,786**	**476,810,194**	**998,914,562**	**7,082,543,542**

40) Impairment allowance for loans and advances to customers (as per BFRS 9)

The table below shows the impairment allowances (both individual and collective) for different loan categories calculated based on ECL approach using Delinquency Grades:

	(Nu)		
	2018	2017	2016
Individual Impairment			
Overdrafts	30,689,154	34,291,320	13,116,111
Term Loans (Other + Service-Tourism Loans)	-	400,066	297,246
Total (A)	**30,689,154**	**34,691,386**	**13,413,357**
Collective Impairment			
Term Loans (Other + Service-Tourism Loans)	70,468,470	69,437,441	61,366,283
Personal Loans	16,510,087	17,827,501	10,710,345
Loans Against Shares	3,109,159	613,334	928,515
Overdrafts	102,616,344	84,091,304	32,428,749
Housing Loans	36,660,257	28,446,605	13,208,228
Loans on Litigation	10,074,294	4,465,704	12,481,763
Total (B)	**239,438,611**	**204,881,889**	**131,123,883**
Total (A+B)	**270,127,765**	**239,573,275**	**144,537,240**

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RAY & RAY CHARTERED ACCOUNTANTS Kolkata-01

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OUR BRANCHES

THIMPHU BRANCH
TCC Complex Building, Opposite to Hotel Taj Tashi,
Samten Lam, Thimphu
Post Box No: 631
PABX. +97577103077/77199199; +975-2-337283
Fax No:+975-2-336236
Email ID: info@tbank.bt

PHUENTSHOLING BRANCH
1st Floor, RICBL Office Building.
Samdrup Lam, Phuentsholing
Post Box No:118
PABX. +975 77190210/77190211; +975-5-253156
Fax No: +975-5-253157

PARO BRANCH
Tshongdue Town, Paro
Post Box No:1318
PABX. +975 7792077/7719177
Fax No: +975-8-272077

MONGAR BRANCH
1st Floor, Tshering Yangzom Building,
Below Trashigang-Mongar Highway, Mongar
Post Box No: 149
PABX. +975-77192031/+975--4-641256
Fax No: +975-5-4-641255

WANGDUE BRANCH
Opposite to Druk PNB and RICBL Office,
Bajotown, WangduePost Box No: 1269
PABX. +975 77191215/+97577191216
Fax No: +975-2-481733

SAMDRUP JONGKHAR BRANCH
1st Floor, Namgayling House,
Samdrup Jongkhar
Post Box No:116
PABX. +975-77192032/+975-7-251652
Fax No: +975-7-251651

GELEPHU BRANCH
Opposite Tashi Infocomm Ltd. Office,
Gaden Lam, Gelephu, Sarpang
Post Box No: 212
PABX. +975 77190088/77190099
Fax No: +975-6-252274

TRASHIGANG BRANCH
Yeshey Samdrup Building ,
Trashigang
Post Box No: 104
PABX. +975 77183131/77183132

SAMTSE BRANCH
Phuntshok Building,
Samtse
Post Box No:349
PABX. +975 77192232/77192233

TRONGSA EXTENSION OFFICE
Ground Floor, Sangay Tenzin Building, +
Trongsa
Post Box No: 556
PABX. +975-77192030

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LIST OF EVENTS 2018

1,2. Keeping in mind His Majesty's vision on SMART Banking, Hon'ble Governor launched the TPAY (mobile application) and Internet Banking on 13th February 2018.

3,4,5,6. For the convenience of General Public, T Bank has launched Point of Sale(POS) at all the BODs in Bhutan.

7. Annual office picnic held on 6th May 2018.

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1. Launched ATM at Changlam Plaza in Thimphu on 29th June 2018

2. Launched ATM at Hejo in Thimphu on 29th June 2018

3. Opened Trashigang Branch Office on 9th July 2018

4, 5. Opened Samtse Branch Office on 29th September 2018

6. Launched ATM at Babesa on 16th October 2018

7. Launched QR Code on 28th November 2018

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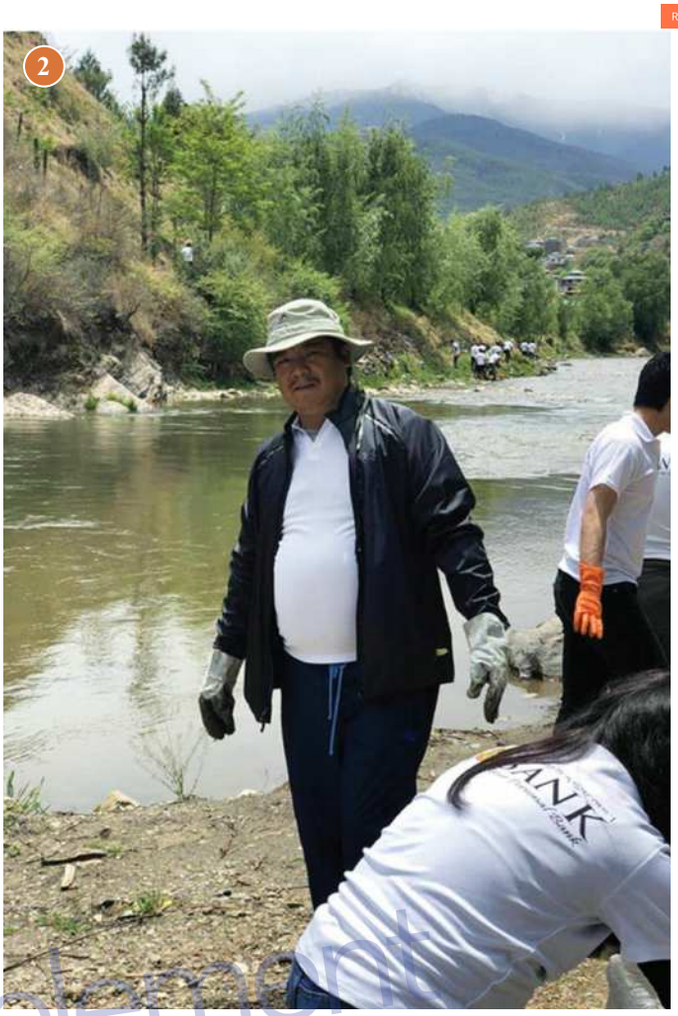

1. Participated in blood donation campaign on 2nd Birth Anniversary of our beloved Gyalsey.

2,3,4. Mass cleaning campaign along wangchhu river on 2nd May 2018 coinciding with Birth Anniversary of Third Druk Gyalpo.

5. As part of bank's CSR activities, the bank donated 5 dustbins (240 ltrs) to Samdrup Jongkhar Thromde on 6th April 2018.

6. T Bank was one of the sponsors for 3rd Royal Highlanders Festival at Laya on 23rd & 24th October.

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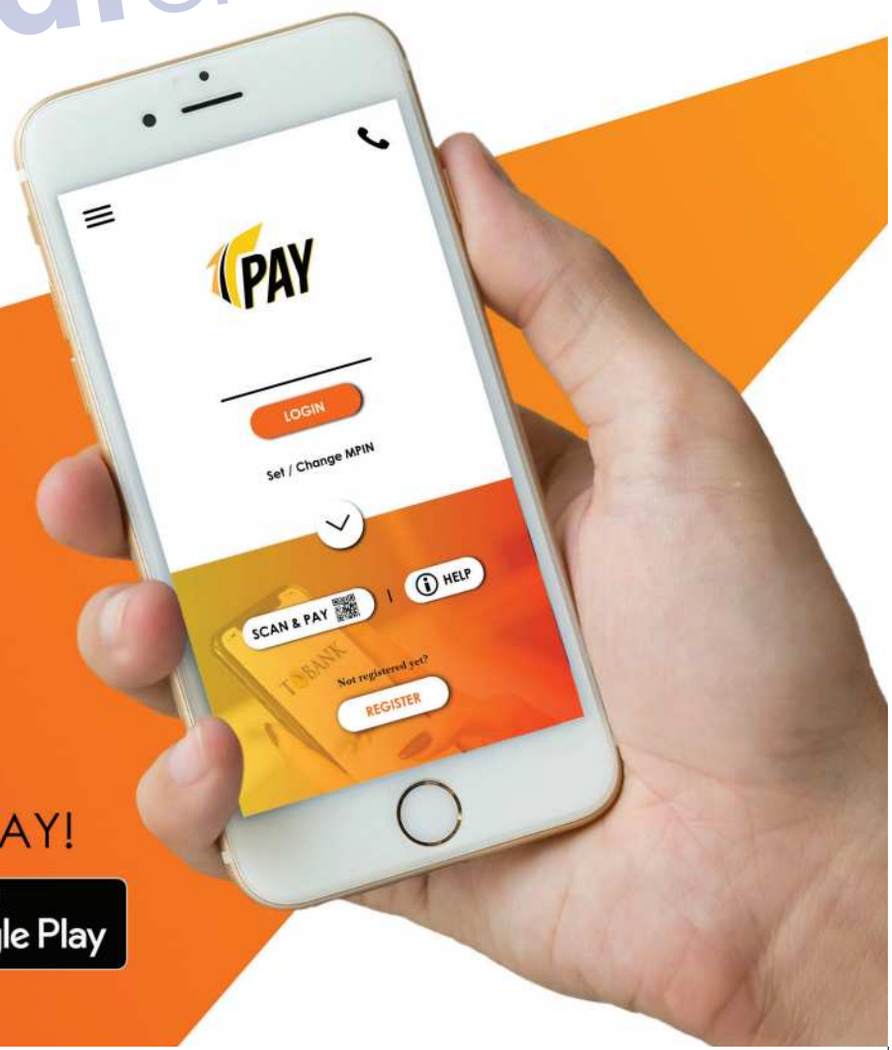

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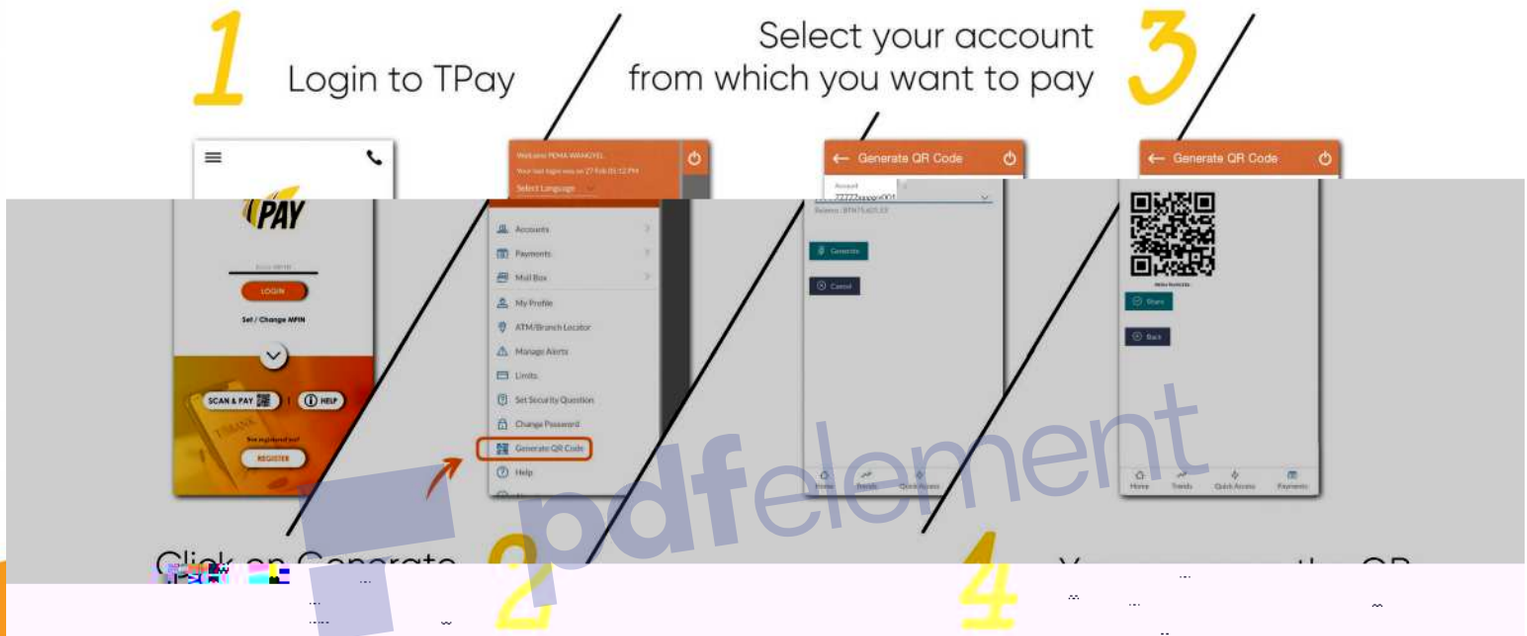

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